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# NEW EUROPE

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The European Weekly

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## Fortis not to make hostile bid for Dexia

CEO Jean-Paul Votron denies market rumours **page 30**



## Kazakh ore giant reduces exports

SSGPO sales to Russia plummet 33.6 % **page 4**



## Piebalgs says oil prices affect growth

EU highly concerned about the oil market situation **page 5**

# Europe's Turkish dilemma



ANA/EPA/TOLGA BOZOGLU

Turkish protestors try to get in to the conference hall to prevent the Armenian meeting at Bilgi University Conference hall in Istanbul, Turkey on September 24, 2005. The European Commission condemned the Turkish court after its decision that ordered the cancellation of this academic conference dealing with the massacre of Armenians during Ottoman Empire.

To be or not to be: a European Union member, the answer is an overwhelming yes from Turkish government but the Europeans are divided over the flavour of Turkish delight.

Ever since Turkey applied for a membership, decades ago, the European politicians have been playing with the idea with a divided stand while Vox Populi was more or less aloof about the subject.

Then came the big bang expansion taking in ten new member states, mostly emerging from post-communist collapse of the former Soviet Union.

With the social and financial factors waking up the population to the doubts and fears of more expansion, the mood of the European citizens was explicitly manifested in the negation of the European constitution by French and Dutch voters.

Political pundits pinpointed the talks of Turkish membership as crucial factor in the negative outcome.

Turkey sitting on the junction of two continents, ruled by military by proxy, having seen coups whenever the army brass feels threatened and with a translucent

human rights record is not exactly a cup of tea for democratic, freedom lovers and compassionate Europeans.

Moreover, the mood of the ordinary citizen can also be gauged by the fact that Austria is adopting a hardline against Turkey's accession with domestic municipal elections looming on Sunday although the political leaders deny this.

On Sunday European Union foreign ministers were slated to meet in Luxembourg in a last-ditch bid to remove the final hurdle to opening membership negotiations with Turkey on October 3. Political leaders are reluctant to make a guess for the outcome.

Surprisingly, Britain, as current EU president is showing alarming alacrity to push for a start of membership talks with Turkey while in recent times London has been dragging its feet over Cyprus, a EU member state's recognition by Ankara.

Whatever the political powers of Europe decide, one result is crystal clear: the political leadership can no more ignore the will of the people of the continent for a democratic and humane European future.

## NOTEBOOK:

### Commission's political responsibilities

The European Union is not going to have a Constitution in the coming years. This is not however the only problem for the Bloc. A number of crucial political issues are also deeply dividing the Union. The EU budget and the Turkish candidacy will continue to create problems, not only for Brussels but also for Paris, Berlin, Athens, and elsewhere in the Union.

Now on top of all this, the British presidency is to add more thorns, planning to introduce a new headache to the Union, by proposing a new round of agricultural subsidies cuts. The idea was obviously American. Only days ago president George Bush told the general assembly of the UN, that the US is ready to abolish all subsidies to agricultural production and exports, if the other developed industrial nations agree to such a proposal. Tony Blair, the British prime minister did not miss the chance and is now proposing to the EU, a new round of

agricultural subsidies cuts, just in the middle of an ongoing reshuffle of the Union's agricultural policies. And all this, despite the fact that Britain, was deeply involved in the decision making process of the current Union's agricultural policy reshuffle.

Obviously the British presidency, acting on an exclusively political base, does not care if it adds more problems to Brussels. So the only effective answer from Brussels to all these problems, including the British challenge and the Turkish candidacy...the connection can only be political and not administrative.

But since the Commission is the only body that is not deeply divided like the Council, the only possible source of a strong political answer can be the College of Commissioners. Thus president Jose Manuel Barroso has a vital role to play. He will be responsible, for the success or the failure of the Union in the years to come.

## Gazprom buys Sibneft, solidifies market position

Russian energy giant Gazprom last Wednesday bought 72.6 percent of the Sibneft oil company for USD 13.1 billion in the biggest state buyout in the country's post-Soviet history. The deal appears to realise the long-held ambitions of Gazprom to become a global energy heavyweight capable of supplying even remote markets like the United States. Core shareholders including 38-year-old Russian tycoon Roman Abramovich and a group of current and former Sibneft managers sold their entire stake to the semi-state-owned gas monopolist. The sale was finalised in Moscow by Gazprom and the Millhouse Capital holding. Gazprom would pay roughly USD 3 a barrel for proven reserves at Sibneft, including rich fields in western Siberia. That compares to the USD 2.40-a-barrel market valuation of the reserves of the largest Russian oil company, LUKoil. The purchase would put roughly one-third of the country's oil production - but most of its overall energy resources when natural gas is considered as well - under state control. Sibneft pumps about 650,000 barrels of oil a day and is the fifth-largest Russian oil company by production. That continues a process begun with the dismantling of YUKOS last December after the arrest of the oil company's head, Mikhail Khodorkovsky, a year earlier.

page 13

## Islam in the Arctic **page 6**



## "Lysistrata" in Brussels by Cacoyannis

page 14

Australia \$3.4, Austria EURO 1.81, Balkans EURO 4, Belgium EURO 3.50, Holland EURO 2.70, Central Asia USD7.5, Central Europe USD5, Canada \$5, Cyprus CYP 1.80, Denmark: DKK 19.95, Eastern Europe USD7.5, France EURO 3.04, Germany EURO 3.50, Greece EURO 4, Hungary HUF430, Japan Y900, Italy EURO 3.62, Nordic countries USD7, Pacific Rim USD8.5, Russia USD 4, Switzerland SFr4, UK GBP 4.5, USA \$2.95, all other countries EURO 6

**Fini says European Union should tackle illegal immigration** **page 8**

## Editorial

### European pluralism and its manifestations

Learning another language not only enhances the "students" mental abilities, but also widens his or her understanding of others and broadens the person's psyche to accept the difference. So the fact that half of the European Union's population speak a second language, means a lot.

So Europe, apart from the fact that it contains all and every ingredient of the western civilisation; it also currently uses all the spoken alphabetical languages of the world and thus continues to be the major producer of civilisation. The fact that half of its population speaks at least one more language other than its mother tongue is a major achievement. This was established by a relevant survey conducted by the European statistics service Eurostat in its Eurobarometer.

Incidentally, with the exception of the Britons, who rarely speak anything else than English, the rest of the European populations speak another language in percentages that widely exceed the 50 percent benchmark. Of course, English is the most popular second language spoken in the European Union, relieving the British of the need to speak anything else than their mother tongue. At the same time however it deprives them of the knowledge of other peoples' ways. In any case, the fact that at least half of Europeans speak another language is a cause for celebration.

On September 26, Europe celebrated its linguistic diversity. Organised annually since 2001 by the Council of Europe, the European Day of Languages, aims to encourage language learning among all age groups and to emphasise the importance of linguistic diversity. To enhance this diversity each year, the EU spends over 30 million Euro on language learning. On the eve of European Day of Languages, Jan Figel, European commissioner in charge of education, training, culture and multilingualism, commented: "As a Slovak proverb says, 'The number of languages you speak, is the number of times you are human.'" And for good reason.

According to the Eurobarometer poll, the younger the respondent, the greater the likelihood of speaking a foreign language. There is no doubt that today's young generation will fully contribute to enriching Europe's multilingual society. The Eurobarometer survey was conducted last June and focused on knowledge of languages among European citizens.

This knowledge not only sharpens the person's mental abilities but at the same time it contributes to his or her deeper understanding of the difference thus creating a society of tolerance. And tolerance is the distinctive characteristic that differentiates European societies from the rest of the world. This characteristic has manifested itself not only in the social protection systems that have been developed over the years in Europe; but also in the political systems of the major continental European countries that give the chance to smaller political, i.e. social groups, to be represented in parliaments. Of course there is a cost in this. For example, it's exactly because of this European tendency for tolerance and diversity that the current German political system produced a dead end.

The electoral system of this country gave the chance to three smaller parties, to gain strong parliamentary representation, depriving each and every one of the two major parties SPD and CDU of the opportunity, to form by themselves a strong majority in parliament. This may seem to some eyes very far fetched to even distantly connect the linguistic pluralism with the political one, but it is made out of the stuff we know ... European tolerance.

#### New Europe

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Angela Merkel (R), chancellor candidate and chairwoman of the CDU, and Bavarian Premier Edmund Stoiber speak during a press conference at the German Bundestag parliament in Berlin, September 28, 2005

## German election deadlock spotlights east-west divide

Germany marks the 15th anniversary of its historic reunification Monday (October 3) with a hangover from recent national elections which spotlighted sharp political differences between the east and the west, Deutsche Presse-Agentur (dpa) said in a special report. There is no doubt an overwhelming majority of Germans firmly support unification which followed East Germany's peaceful mass protests in 1989 that brought the Berlin Wall tumbling down.

A ZDF TV poll showed 91 percent in the east and 82 percent in the west view reunification as having brought major improvements. So there is sure to be plenty of public cheer at this year's main German Unity Day ceremonies Monday in the eastern city of Potsdam which will be attended by national leaders giving speeches flanked by an open air street festival. But despite all the progress since October 3, 1990 when East Germany was absorbed by West Germany, there remains an underlying bitterness best described as a "them and us" stance on both sides of what used to be the Iron Curtain.

Among western Germans, or "Wessis," there is a widespread view that without the east, Angela Merkel's conservatives would have swept to victory in September 18 elections which instead produced deadlock, said the conservative newspaper Die Welt.

This led to an unseemly - and still undecided - struggle for power after voters failed to give a majority to either Chancellor Gerhard Schroeder's centre-left Social Democratic-Greens government or to Merkel's centre-right bloc.

"That's what you get if you pump 1.5 trillion Euro (USD 1.8 trillion) into a region where public opinion is dominated by pensioners socialised by the communist party's youth movement," said the commentary which

was only partly tongue in cheek.

The sum of money transferred from western Germany to eastern Germany is indeed staggering. In recent years the total amount of net annual transfers has fallen to over 80 billion Euro.

Nobody denies these funds have been vital in transforming the region's rotting infrastructure by giving it a cutting edge telecoms system, thousands of miles of new roads and rail lines as well as beautifully restored old cities.

But the eastern economy still cannot support itself and massive amounts of cash will have to be pumped into the region for at least another 15 years, officials admit.

Eastern German unemployment is over 18 percent, almost double the rate in western Germany, and much of the region remains the nation's poorhouse. There are, however, some big exceptions. Leipzig has new BMW and Porsche plants, and the city's airport is set to become the European hub for air freight giant DHL.

Dresden has drawn billions of Euro in chip factory investment from the US chipmaker AMD. Meanwhile, the Baltic Sea coast of Mecklenburg-West Pomerania is booming as a tourist destination.

But overall, the region has lost a net 1.5 million people during the past 15 years with many eastern Germans moving to take jobs in the wealthy western states of Bavaria and Baden-Wuerttemberg.

Given east-west economic differences it is perhaps not surprising voters cast ballots differently in both parts of the country. But what few people expected is that diverging political patterns would be getting more extreme after 15 years of unity.

The best example is that of the former East German communists who merged with a smaller western protest group and now call them-

selves the Left party. Left party candidates won over a stunning 25 percent in the east, compared to 4.9 percent in the west in the general election.

This is powerful result for a party which in 1989 was seen as on the ash-heap of history after its Stalinist fore-runner was chased from power by East German people power.

In the outgoing parliament the post-communists has just two members. But in the new Bundestag they will have a comfy 54 seats. "East Germans are de facto second class citizens - they have to work longer hours, get lower wages, salaries and pensions," said the Left party's Communist Platform in a unity anniversary statement. Another extremist party, the far-right National Democratic party of Germany (NPD), got three times as many votes in eastern Germany as in the western part of the country.

Overall support for the NPD remains low. The party got 1.1 percent in the west and 3.6 percent in eastern Germany and will not have any seats in parliament given its failure to cross the 5 percent hurdle. But in its stronghold in eastern Saxony state the party won over 7 percent in some districts.

A further striking difference is the continuing far lower support for the Christian Democrats in the east compared to western Germany.

Merkel, despite hailing from the east, won just over a miserable 25 percent in the region. In western Germany she got 37.5 percent.

But if truth be told, Merkel was seen as neither an Ossi nor a Wessi in the campaign and she sometimes seemed to suffer for lack of any regional home advantage.

Supporters, however, hail Merkel as the first pan-German candidate and say this very aspect of her image shows German reunification is finally beginning to sink into people's heads.

# Nordic, East Asian nations are world's most competitive

**F**inland remains the most competitive economy in the world and tops the rankings for the third consecutive year in The Global Competitiveness Report 2005-2006, the World Economic Forum (WEF) said last Wednesday. The WEF said that the United States was in second place, followed by Sweden, Denmark, Taiwan and Singapore in the study which polled almost 11,000 business leaders in 117 economies around the world.

The survey took in broad range of factors for evaluation, with special focus on countries' macroeconomic environment, the quality of public institutions which underpin the development process, and the level of technological readiness and innovation, the WEF said.

"The Nordic countries share a number of characteristics that make them extremely competitive, such as very healthy macroeconomic environments and public institutions that are highly transparent and efficient," commented Augusto Lopez-Claros, chief economist and director of the WEF's Global Competitiveness Programme. "While the business communities in the Nordic countries point to high tax rates as a potential problem area, there is no evidence that these are adversely affecting the ability of these countries to compete effectively in world markets," he said.

The Nordic countries were providing their "respective pop-



Stockholm's Old Town. Sweden ranks third in the Global Competitiveness Report 2005-2006

ulations some of the highest standards of living in the world," Lopez-Claros added.

The report noted that Finland has ranked number one in the competitiveness rankings for the fourth time in the past five years.

The United States again ranked second, with the WEF describing the US as demonstrating "overall technological supremacy, with a very powerful culture of innovation."

Besides Finland, overall the Nordic countries continue to hold prominent positions in the rankings among the top 10 most competitive economies this year, with Sweden in 3rd position, followed by Denmark (4), Iceland (7) and Norway (9).

The WEF said there were other notable developments in Europe, including Ireland improving 4 positions to 26th on the list. Poland gained 9 places to 51st. In Asia, the leaders were Taiwan and Singapore, respectively ranked 5 and 6 on the list. Japan was ranked 12th.

But Hong Kong fell 7 places to 28th in the global competitiveness rankings, with the WEF citing such factors as "a weakening in perceived judicial independence, the protection of property rights, and in government favouritism in policy-making." The WEF said that Australia moved up 4 places to achieve 10th in the rankings, while China and India, 49th and 50th, respectively, were not

more closely ranked than in earlier years. China fell 3 positions while India gained by 5 places, the WEF said.

"Both China and India have had an excellent growth performance in recent years. However, both countries continue to suffer from institutional weaknesses which, unless addressed, are likely to slow down their ascension to the top tier of the most competitive economies in the world," the WEF said.

In the Middle East and North Africa (MENA) region, the small Gulf States did well in the rankings. The United Arab Emirates (UAE) and Qatar were ranked 18th and 19th, respectively, the WEF said.

## ASEAN creates fund to fight bird flu amid fears of global pandemic

The Association of Southeast Asian Nations (ASEAN) last Friday approved the creation of a regional fund to combat the deadly avian influenza amid fears the outbreak could escalate into a global pandemic. ASEAN agriculture ministers, meeting in the Philippine resort city of Tagaytay, just south of Manila, also endorsed a global plan to combat bird flu and prevent a possible pandemic, which experts warned could kill as many as 150 million people. They said all member countries "have pledged contributions" to the ASEAN Animal Health Trust Fund (AAHTF), which would be used to prevent the spread of bird flu and other illnesses affecting animals such as foot-and-mouth disease. "An agreement is being developed to ensure that there is a robust framework for accountability, drawdown proposals and proper use and management of the fund for long-term sustainability," the ministers said in a joint statement at the close of the meeting. The fund has already raised an initial amount of USD 2 million, but the ministers are confident that ASEAN would be able to get more especially for the fight against the deadly H5N1 virus, which has killed at least 62 people in Asia since 2003.

Most of the deaths were in Vietnam and Thailand, both ASEAN members. A third ASEAN member, Indonesia, is now battling a surge in cases. Other ASEAN members are Brunei, Malaysia, the Philippines, Singapore, Laos, Cambodia and Myanmar (Burma). During the meeting, the ministers also directed an ASEAN anti-bird flu task force to "urgently formulate detailed action plans for implementation and proceed to identify potential sources of funding" for a regional framework against avian influenza. "The framework covers eight strategic areas over a period of three years from 2006 to 2008 to prevent, control and eradicate the disease," the joint statement said.

In endorsing the global plan to battle avian influenza, the ministers "expressed confidence that with financial and political commitment, the disease can be effectively controlled in the region." ASEAN's endorsement of the global strategy was expected to boost efforts to secure USD 102 million in donor pledges to fund vaccinations and monitoring of poultry and the exchange and analysis of virus samples in affected countries.

Donors have so far pledged just USD 20 million of the needed amount to tackle the deadly H5N1 virus and prevent a possible pandemic. Aside from the threat to human life, officials are concerned that a global pandemic could force governments to restrict travel and the movement of goods, which would hurt many industries. The World Organisation for Animal Health, the Food and Agriculture Organisation and the World Health Organisation plan to hold a conference in December in a bid to raise more money for combatting bird flu.

Bird flu has now affected 11 countries since it was first detected in South Korea in December 2003. Aside from the human death toll, the disease has also led to an estimated USD 15 billion in losses in the poultry trade.

## Ayatollah calls for "wise approach" to nuclear dispute

One of Iran's senior and most influential Ayatollahs called last Friday for a wise rather than provocative approach in the nuclear dispute. "Our friends should know that we are at a very critical and dangerous juncture where wise diplomacy is needed, not provocative slogans," Akbar Hashemi-Rafsanjani said after Friday prayers in Tehran.

Rafsanjani was referring to ultra-conservative officials close to President Mahmoud Ahmadinejad who have recently called for harsh reactions to the International Atomic Energy Agency (IAEA) and the European Union. "Such a sensitive issue cannot be solved by provocative rhetoric, but we must find a suitable settlement of the dispute through wisdom," said the moderate Rafsanjani whose opposition to Ahmadinejad is an open secret in Iran.

The Iranian parliament,

dominated by members of the ultra-conservative Abadgaran (Development) party of which also Ahmadinejad is a senior member, approved last Wednesday a draft bill to suspend the IAEA additional protocol and curb IAEA inspections of nuclear sites.

The draft bill, has yet to be evaluated in several commissions before finalisation by the senate-like Guardian Council, is a first step by parliament to retaliate against last week's anti-Iran resolution at the IAEA which threatened to bring the case before the UN Security Council where Iran could face sanctions.

Iran's chief nuclear negotiator Ali Larijani said last Thursday that although Iran would remain committed to the Nuclear Non-Proliferation Treaty, Tehran would revise that commitment in the event of further ultimatums and threats.

"Nobody in this country will allow Iran being deprived from peaceful nuclear technology but for reaching this aim we have to sit down and talk and gain the necessary global trust," Rafsanjani said.

The cleric pointed out that in the final phase of the war against Iraq (1980-1988), Iranian soldiers were killed by Iraqi chemical bombs. Yet the Iranian administration did not even consider retaliating due to Islam's harsh opposition to any weapons of mass destruction.

"Iran would never ever make use of nuclear technology for military purposes and this is what we have to persuade the outside world of," he said.

The IAEA demands that Iran stop uranium conversion at its plant in Isfahan in central Iran. Tehran has not only rejected this demand but wants to start the uranium enrichment process in the neighbouring Natanz plant.

Uranium enrichment at a low grade can only be used for nuclear fuel, but a higher enrichment grade could also be used to make atomic bombs.

In another development, the Iranian parliament approved last Wednesday a draft bill urging the government to suspend checks of its atomic facilities by the UN nuclear watchdog, the International Atomic Energy Agency (IAEA).

More than 70 percent of MPs voted for the draft bill which has yet to be approved by the parliamentary energy, security and foreign policy commissions, and finally by the senate-like Guardian Council before becoming law.

According to the bill, the government has to suspend further IAEA inspections of nuclear sites until Iran's legitimate right to pursue nuclear technology is acknowledged by the UN watchdog.

## Norwegians tip Bono to win Nobel Peace Prize

Irish rock star Bono is being tipped as a hot contender for this year's Nobel Peace Prize, Norway's NTB news agency reported last Wednesday, 10 days before the winner is due to be announced in Oslo. Norway's International Peace Research Institute (PRIO) considers Bono to be one of the three most likely candidates to receive the prestigious award, NTB reported. Finnish former President Martti Ahtisaari and US politicians Sam Nunn and Richard Lugar are also deemed hot favourites by PRIO Director Stein Tonnesson, the report said. For several years Bono has been nominated for the prize because of his work in achieving debt forgiveness for developing countries. Finland's Ahtisaari has distinguished himself as a mediator in the war-torn Indonesian province of Aceh. Nunn and Lugar have also been nominated for several years running because of their campaign for the safe disposal of nuclear weapons in former Soviet republics. The 199 official candidates, of which 36 are organisations, include German Chancellor Gerhard Schroeder, former US Secretary of State Colin Powell, Russian human rights lawyer Sergej Kowaljow, former Czech President Vaclav Havel, Israeli nuclear whistleblower Mordechai Vanunu and Ukrainian President Viktor Yushchenko. The decision of the five-member Norwegian Nobel Committee will be announced in Oslo on October 7 at 11.00 a.m. (1000 GMT). Last year, Kenyan human rights lawyer and environmentalist Wangari Maathai became the first African woman to win the Nobel Peace Prize.

## Save Olympic Airlines, don't destroy it!

For almost 50 years Olympic Airways has been flying the Greek flag and Olympic circles across the world. In the 1950s, 60s and early 70s Olympic Airways (founded and managed by the legendary Greek tycoon Aristotle Onassis) was considered as one of the more reliable and prestigious companies in the world. The Greek state took over in 1975 and Olympic Airways maintained its high prestige as far as security was concerned, and its record is still one of the highest in the world.



George Karatzaferis

By George Karatzaferis

There are some factors concerning Olympic Airways that were never taken into account by the European Commission in deciding that the company must return significant amounts considered as state aid to the Greek state. Greece has more than 1,200 islands and some of them, during winter in particular, are served almost exclusively by airports; especially in cases of need for immediate hospitalisation.

Olympic was instructed by the Greek state to fly across Greece in order to facilitate people living on those islands. All these costly routes put, without a doubt, a very heavy burden on the company.

Another heavy cost was the one related to the lousy practice of the two leading parties of Greece, Nea Demokratia and PASOK, which are in power since 1974. They both used Olympic as the carrier of their voters during the periods before national elections for free! These expenses were never paid to Olympic....

Since 2001 Olympic was charged with another – unexpected – cost.

It was forced by the then PASOK government to move from its base at Hellinikon Airport (where it paid only seven million Euro per year for services) to the new Athens International Airport at Spata where it pays nine times (!) more than it used to pay before (65 million Euro per year, for the same services!). For this reason alone, the company has paid in excess, over 300 million Euro in the last 4.5 years.

I was surprised by the “hard line” hasty practice followed by Commissioner Jacques Barrot, the successor of Mrs. Loyola de Palacio in DG Transport at the European Commission. My colleague Nigel Farage unveiled several facets of the career of Mr. Barrot. Mrs. De Palacio recently issued a statement that the dossier of Olympic was opened after 10 years upon her initiative.

I was also surprised by the fact that Mrs. De Palacio felt she should open this dossier after so many years. As a political leader and elected Member of the European Parliament I will never agree to the elimination of a company which became known as “the carrier of the five continents” and brings together seven million Greeks from across the world.

George Karatzaferis, MEP

**B**ritish Ambassador to Russia Tony Brenton finds it important that Russia regain the confidence of foreign investors, which he sees the YUKOS case as having undermined. With regards to the YUKOS case neither Britain nor other countries should pass judgement on how Russia handles its internal affairs, he said last week. However, it is common knowledge that the YUKOS case had an enormous negative impact on investors, he said at a last Thursday news conference at the Interfax central office. Everyone agrees that investment in Russia is essential in order for the Russian economy to reach West European standards, Brenton said. The YUKOS case was a serious step backwards and it is crucial that Russia restore the confidence lost, he said.

# No fast fix for social ills, Putin tells Russia

**T**here is no fast remedy to Russia's many social and economic ills despite a reserve fund of USD 25 billion amassed mainly from energy sales, President Vladimir Putin said last Tuesday in a marathon live question-and-answer session with citizens across the country.

“We could distribute all this money today but it's not actually that much, no one would feel it and the resultant inflation would instantly eat it up,” Putin said during the almost three-hour event.

Such a course as a “senseless act of political populism that would harm the economy,” added Putin, who nonetheless earlier ordered extra allocations of USD 4 billion for social spending in 2006.

In his fourth such appearance since 2001, the leader answered 70 questions from more than one million posed via email and text messages and live link-ups with 12 cities and towns.

The event seemed to have been carefully orchestrated to touch upon key issues like pensions, health care, army service and housing.

It also included a caller asking Putin to consider seeking a third term as leader - a hot topic with his second and theoretical last term expiring in 2008.

Amid growing speculation that the Kremlin will engineer a third term, Deutsche Presse-Agentur (dpa) quoted Putin as saying he was against changing the constitution to this end and would “find his place in the



Russian President Vladimir Putin answers the questions of Russian people during the call-in show in Moscow, September 27, 2005

ranks” of society after leaving office.

For all the explanations of the need for fiscal frugality, many viewers will have dismissed last Tuesday's event as a whitewash to improve Putin's rating rather than explain poor living conditions of most of the natural resource-rich country's 144 million inhabitants.

“Why is half of Russia not hooked up to the gas supply when we sell gas everywhere abroad?” one man asked the president.

A mother also wanted to know why she only receives 70 roubles (USD 2.5) in child care allowance for her 8-year-old son

each month.

But questions were evidently carefully screened to exclude any real pressure on the president.

The Russian human rights organisation Memorial said that during a TV link-up with Putin from the Arctic mining town of Vorkuta an elderly member of the group was beaten up by security guards when he tried to approach to ask a question.

Only people previously authorised by city hall were allowed near the cameras.

Meanwhile, the president gave the appearance of having been well briefed about all the points raised by citizens here

and elsewhere.

This year's broadcast included the usual grand and colourful gesture made by the head of state in response to a specific question.

In previous years, Putin gave instructions on air for the issue of Russian citizenship to a soldier in Tajikistan, repair of a school heating system and connection of a village to the gas network.

Reading out a letter from a pensioner in the southern Stavropol region, Putin said he would not nominate the incumbent governor for a further term if water is not promptly piped to her village.

## Marcinkiewicz embarks on coalition talks

Poland's newly elected parliament will convene October 19, just ahead of the second possible October 23 round of the country's presidential election, outgoing Polish President Alexander Kwasniewski announced last Wednesday in Warsaw.

Six parties, including conservatives, liberals, populists, left-wingers and agrarians will enter the 460-seat Polish parliament after the general election. The right-wing Law and Justice party (PiS) took 155 seats and a narrow victory ahead of the liberal Civic Platform (PO) which polled 133 seats.

Proposed by PiS for the post of prime minister, 45 year-old Kazimierz Marcinkiewicz said Wednesday the October 19 parliamentary sitting would also be “the best” date for a new government to be officially designated.

Kwasniewski vowed last

Wednesday said he would designate Marcinkiewicz as premier October 19, if he and his cabinet enjoyed support from a parliamentary majority. The little-known politician was to embark last week on coalition talks with PO leaders, with economic policy expected to be a sticking point.

Commentators in Poland believe Marcinkiewicz was put forth for prime minister by PiS leader Jaroslaw Kaczynski in order to boost the chances of his identical twin brother Lech Kaczynski winning the upcoming presidential ballot. Jaroslaw Kaczynski declined the office which many believed he would fill.

Poles will vote October 9 in a first round presidential ballot. Should no candidate win 50 percent of the vote, a second run-off ballot is to be held October 23.

Front-runner in the presi-



PiS candidate for Prime Minister Kazimierz Marcinkiewicz

dential race PO leader Donald Tusk has consistently scored above 40 percent support outpolling Lech Kaczynski by around 10 percent, but recent surveys show him losing some of his advantage.

Third place in parliament was taken by the populist

Samobrona, or Self-Defence, farmers' party with 56 seats.

Despite losing power, the ex-communist Democratic Left Alliance (SLD) won 55 seats. Pre-election polls had shown it in danger of falling below the 5 percent hurdle required to enter parliament.

The Catholic-nationalist League of Polish Families (LPR) took 34 seats while the agrarian Polish Peasants' party (PSL) scored 25 seats.

The German Minority gained two seats under a special constitutional arrangement insuring the representation of minority interests in parliament.

The election, the fifth fully democratic ballot since it shed communism in 1989 and the first since nearly 40-million-strong Poland joined the European Union in May 2004, saw record low voter turnout of 40 percent.

# The significance of family carers

**T**he United Nations has declared that every October 1 will commemorate the international day of Older Persons. Indeed, in Europe, the situation of family carers of older people and how services do and do not help those who provide a vast amount of care and support, is being increasingly recognised, as a significant issue.

By Anna Zaborska

In publishing, last June, a Pan-European Background Report, which reflects in details critical issues related to family carers of older people, the Eurofamcare consortium has greatly contributed to our reflection.

Defining the nature of family care for older people needing a range of help with the activities of daily life and financial support is a complex one. Shared histories, love and mutual obligations are at the heart of an interpersonal social solidarity that provides both emotional and practical support between family members. The difficulties arise when the older person's needs become such that they require help over and beyond these "normal" interchanges. This is particularly the case for spouses where mutual dependency is often a well developed life strategy.

The balance of care provision in each country depends on a mixture of factors such as tradition, legal responsibilities, health and social policy, national budgets and national wealth and, last but not least, demographic trends regarding fertility levels and life expectancy, which affect the availability of informal family carers.

Despite wide variations in systems of formal care provision for dependent older people, in all the 23 Eurofamcare countries the vast majority of care is provided by individual family members within the informal care sector.

Even in countries such as Sweden, where the state has traditionally been a main provider of care, the need to



Anna Zaborska

contain increasing costs, together with the stated preferences of older people themselves to remain in their home environment for as long as possible, the study has led to what has been described as a "re-discovery of family care."

Older persons' care is not only related to the three key-stones of accessibility, quality and sustainability of health care systems, to social inclusion and work (labour market): the study also shows that in all EU countries, it is directly linked with the provision of and payment for long-term care, which is divided between four sectors of what has been termed the "welfare diamond," namely: the family and informal care sector, the state or public sector, the voluntary and non-governmental-organisation (NGO) sector and the care market or private sector.

The UK is unique in having a legal definition of who is a family carer which is supported by 3 acts of parliament. In giving legal recognition UK has associated rights and services to family carers, enshrined in the Carers' (Equal Opportunities) Act 2004.

Family carers are rarely considered but nonetheless they do provide their labour, mostly unpaid, to support the dependent older person. The supply, availability and willingness of individuals to act as family carers is critical in

understanding the long term trends in labour provision for care work. The difficulty revolves around the unpaid and unrecognised nature of domestic work – a problem faced by economists and statisticians.

Is family care and domestic maintenance part of the national economy or not?

Where this work is undertaken by paid persons it is counted as falling within the labour force, though not when unregistered.

As might be expected, the Swiss have studied the economic value of family care work, which they calculated to reach between 10 and 12 billions of Swiss Francs, exceeding the cumulative spending on both home care services and residential care homes.

Given some of the specified problems in defining family carers, what does emerge in many reports is the predominance of women.

Though the rates vary, overall approximately two thirds of care is provided by women. Thus the rate of women's participation, or non-participation, in the labour market is often a dimension of labour availability for care work.

The critical issue in the labour market for care work lies in whether the individuals providing domestic and care work are officially paid with national insurance and tax contributions or not.

The debate also revolves around the "work" people do to support one another, as part of normal social exchanges, and that which goes beyond these "normal" interchanges to become defined as "work."

Despite the fact that many countries in Europe still do not acknowledge the role of family carers in the social and health support of older people, politicians and policy makers at local, national and EU levels can only ignore the changing demographic structure of Europe at their peril!

Anna Zaborska, MEP

## EU's Piebalgs says oil having a negative impact on growth

EU Energy Commissioner Andris Piebalgs told the European Parliament in Strasbourg on September 28 that soaring high prices are harming economic growth. "The European Commission is highly concerned about the current situation in the oil market, characterised by an unprecedented rise in prices," Piebalgs said.

"Because these high prices are beginning to have a significant negative impact on the well-being of our citizens, particularly the most vulnerable, and upon our economy, the commission as well as the member states must focus its efforts on this challenge," the commissioner added. Piebalgs urged oil companies to step up investment in refineries in order to avoid bottlenecks and help combat high prices. "I will be meeting shortly with the executives of the major oil companies. As I can see it is very important that the oil companies behave in the most responsible manner given this situation," he said.

"In particular, I will insist on the need for more investment by them, and to deter-



Energy Commissioner Andris Piebalgs

mine which additional measures can be taken to remove bottlenecks preventing further investment, particularly in refining capacity," he noted. With oil producers pumping at or close to full capacity, soaring oil prices has focused attention recently on lack of refineries to meet consumer demand.

Britain's Europe Minister Douglas Alexander, whose country currently holds the EU's rotating presidency, told the parliament that "greater investment is needed in both production and refining sector."

The appeal for more investment in refineries was part of a five-point plan by the EU executive to respond to high oil prices exacerbated by events like Hurricane Katrina in the United States.

The plan includes saving energy and reducing demand, increasing the use of alternative energy forms, making oil markets more transparent and predictable, boosting supplies and reacting better to oil stock emergencies. The Commission is increasingly concerned about soaring oil prices but there is little it can do to help ease them other than to coordinate the management of members' emergency reserves and encourage energy conservation. Oil companies have largely avoided building costly new refineries since the last wave of investment in the sector two decades ago following the 1970s oil crises.

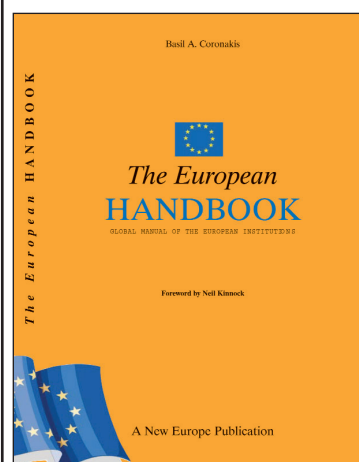
Energy groups spurned making big investments in refining because such layouts were deemed to be unprofitable until the recent jump in crude prices started years ago.

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## Blair says "sorry" to party veteran ejected over Iraq

British Prime Minister Tony Blair last Thursday apologised to a veteran party activist thrown out of the Labour Party conference for heckling Foreign Secretary Jack Straw over Iraq. The prime minister said stewards had been "overzealous" in their treatment of 82-year-old Walter Wolfgang.

"I'm really sorry about it," Wolfgang, a refugee from Nazi Germany who joined the Labour Party in 1948, was manhandled by five

burly party stewards and ejected from his seat in the spectators' gallery at the conference in Brighton last Wednesday.

The rough treatment caused indignation among Labour delegates, who said it was a sign of the party leadership's extreme nervousness over the Iraq issue. Wolfgang shouted "rubbish" and "that's a lie" when Straw said British troops were in Iraq to help bring democracy to the country.

## Austrian leader denies Turkey blockade is for election purposes

Chancellor Wolfgang Schuessel denied last Friday that Austria's blocking of European Union consensus over negotiations with Turkey is a ploy to help his conservative People's party (VP) win Sunday's key elections in Styria province.

"That has nothing to do with the election date," he said during a campaign appearance in the Styrian capital Graz. He said he was even "unhappy" about the Turkey issue and Styrian election coinciding. Sunday's polling in Styria is expected to be a knife-edge contest in an important province of nearly one million voters.



Austrian Chancellor Wolfgang Schuessel

Opinion researchers say that for the first time in decades, the Social Democrats (SP) have a real chance of unseating the VP, which has held the governorship since World War Two.

The last polls in Styria will close early Sunday evening. At about the same time, foreign ministers will meet in an emergency session in Brussels to seek last-minute consensus on the mandate for EU-Turkish membership talks to begin on Monday (October 3).

Consensus was prevented last Thursday by Austria's insistence - alone among the 25 EU member-states - that there must be alternatives to full Turkish membership of the EU. Schuessel said in Graz that Austria had already stood up for its point of view for weeks. He stressed that the negotiations with Turkey must be with an open result, regard must be paid to the EU's capacity for further enlargement, and alternatives to membership were necessary in case Turkey did not fulfill the conditions.

No new conditions should be made, but consideration must be taken for people's fears and concerns, said Schuessel.

Meanwhile, Austrian Opposition Social Democrat (SP) leader Alfred Gusenbauer charged last week that Schuessel is "leading the country in the wrong direction."

Unemployment had risen, there was less growth, two-class medical care and declining school standards, he said at a policy session of SP members of parliament.

However, the SP chief predicted, the voters would "present the government with the bill" in provincial elections in Styria this Sunday (October 2) and in Burgenland on October 9, and in Vienna on October 23.

Gusenbauer declared that a change of course was needed for Austria. There must be "the right priorities" - more growth and jobs, a turnaround in health policies, and "assuring our young people better chances."

"It's not so difficult to lead Austria in the right direction," said Gusenbauer. He accused the VP of lacking the political will. Schuessel's party had not realised that "neoliberalism does not lead to the goal."

The SP leader accused the government of breaking pre-election promises and carrying out a reform in 2003/04 which had let to "the biggest pension cuts of all time."

In the government's tax reform, 1,000 Euro per year had been promised to citizens, but most of the population had not noticed anything. The government spoke with a "forked tongue" - "they say one thing and do another," charged Gusenbauer.

In reaction, VP Secretary General Reinhold Lopatka retorted that SP policies were nothing but "complaints and denigration." He pledged his own party would continue its "successful course for Austria."

Opinion pollsters say that in the three provincial elections in October, the SP is in a strong position. It is expected to defend or increase its majorities in Vienna and Burgenland, and mount a strong challenge against the VP for the leadership of Styria as well.

General elections in Austria are due next autumn.

# Islam in the Arctic - life at the most northern mosque

When young Muslim cleric Davran took up his first post as an assistant imam in the Russian town of Norilsk in March, he underwent an unexpected test of body and soul, Deutsche Presse-Agentur (dpa) said in a special report last week.

Arriving from the hot climes of his native Uzbekistan he was ill-prepared for life in this Arctic ore mining centre, where the mercury plummets to minus 50 degrees Celsius in winter and the sun vanishes for weeks at a time.

Worshippers come for prayers shrouded in fur coats and huge boots, but his duties at the world's most northern mosque are much like at any other around the globe, despite the initial shock of the heavily polluted, frozen surrounds.

"You can get used to anything if you serve Allah," says Davran, sitting in the mosque's tearoom as he weighs up his first six months in service as a prayer leader. Outside the turquoise-coloured building, thick grey palls drift past from the smokestacks of the nearby nickel smelting plant. Only when the wind blows in a certain direction is it possible to breathe freely in the town of 130,000 people.

Located in the barren tundra 2,900 kilometres northeast of Moscow, Norilsk was born of the labour of tens or even hundreds of thousands of Soviet prisoners sent to their deaths from the mid-1930s onwards.

Today, people who come here to work do so voluntarily with the goal of making as much money as possible in a short time before moving away.

Those who have jobs at the giant local concern Norilsk Nickel earn around USD 1,200 a month, five to seven times the average national wage owing to the hardship rates that are paid. As well as Orthodox Russians



People walking in Norilsk, Russia

and Ukrainians, thousands of Muslims from the former Soviet Union work in industry and the retail sector, especially at the markets, where goods are brought from the "materik," or mainland, meaning well developed areas of the country.

But the Muslim diaspora is not in strong evidence at the mosque, which was built by a wealthy local businessman in 1998 in memory of his parents.

"Only about 200 people worship here regularly," says Magomed, a businessman who sells Greek-made fur coats.

"We Muslims here also tend to think mainly about making ends meet financially," he says ruefully, naming increased earnings as his reason for moving so far from his home in the North Caucasus.

Closed to outsiders in Soviet times, Norilsk enjoyed a decade of free access before foreigner restrictions were reimposed in 2001 to control the flow of migrant workers and narcotics

from the south and possibly to keep prying eyes away from the strategic metals industry.

But the traders still come and go from Muslim regions of Russia and no-one is too sure how many Muslims live here, as many as 30,000 by some estimates. The main thing, it is agreed, is that the different faiths live in reasonable harmony.

The allocation by town authorities of 1.5 million rubles (USD 53,000) for renovation of blizzard and frost damage to the mosque are seen as a clear effort to foster goodwill.

The picture is rather different in other parts of the country, where inter-ethnic and inter-religious conflicts have boiled over with often horrific consequences in recent years, such as Chechnya.

And in Moscow and other large cities members of Russia's 20 million Muslim population, or one seventh of the overall population, cite discrimination because of their faith.

"In Norilsk it's less dangerous for us than in the capital," says mosque visitor Zemfira, a teacher who left the North Caucasus republic of Dagestan to escape poverty and seek high wages in the north.

Now she has a relatively stable income from selling flowers. But no matter how long she stays, Zemfira and many others cannot get used to the six-week long Polar night when the sun barely rises and it's almost totally dark around the clock.

A half-year into his indefinite stay in Norilsk, Davran has a modest ambition that he hopes to fulfill with time.

"I haven't felt comfortable enough to call the faithful to prayer from the top of the minaret," he says, adding that this is not due to the choking smog but the likely irritation from residents of nearby housing blocks: "If I announce prayers through a loudspeaker then I will likely receive a court summons for disturbing the peace."

### Clipping wings

The saga of Olympic Airlines leaves a really bad taste in my mouth, and in all of Greeks' mouths. We talk about a company that has an 8,000-strong staff with few planes, compared to other leading European airlines with half that staff number and double the number of planes! Although it would never admit it, the PASOK party is to blame for the plight of this company. New Democracy is trying to deal with a problem that materialised over 20 years ago. A state-owned company, with personnel that have jobs "for life," can only bring on headaches. Delays and problems are bigger than life at Olympic. Passengers have had to deal with the "no-care" attitude of workers for many years. It is time for the Greek government to sell this airliner to private investors. It is only

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through private investors that Greece can guarantee that Olympic's wings will not be clipped.

Julie P. Pappas  
New York, US

### French U-Turn

France was right to blacklist foreign airlines with questionable safety records. In this climate, with so many recent plane crashes taking place, prevention is the better option. It is unfortunate that the airlines affected were mainly in Africa and Asia, but perhaps unsurprising as the poor coun-

tries on these continents are unlikely to be using the most expensive or latest model airplanes.

Nevertheless France along with other European countries has a duty to, and must protect its citizens. It's just a shame that when the choice was between maintaining passenger safety and business interests, the latter won, and Air France chose to compromise in order to resume business in Cameroon.

It is appalling that even today big international and multi-national Companies not just Air France, but the big pharmaceuticals for example continue to put profit over lives. It appears that as long as they are making money they do not think or care about the consequences of their actions, or rather, as in this case their inaction.

Sandrine Vienne  
Montpellier, France

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# Italy's Fini says EU should tackle illegal immigration

Italian Foreign Minister Gianfranco Fini said last Wednesday illegal immigration should be tackled by all of the European Union - not just member states like Italy and Malta that bear the brunt of the problem. Fini, in Malta on an official one-day visit, held talks with his Maltese counterpart Michael Frendo. He later told a press conference that the issue could have "very serious consequences" for the EU.

Fini said that frontline states like Italy and Malta - which currently has some 1,400 illegal immigrants held in its detention camps - should be helped to have the structures needed to cope with the emergency. He said the matter would be raised at the next meeting of EU foreign ministers, where he would be supporting Malta's demand for the opening of a branch of the EU's frontier agency on the island. Italian and Maltese officials plan to meet in Rome in October to improve collaboration between the two countries in dealing with illegal immigration.

## Southern Europe sees influx

Meanwhile, southern Europe was hit by a influx of illegal immigrants recently with hundreds of persons attempting to enter Italy, Greece, Croatia and Spain, reports said last Tuesday. Italian coastguard officials reported discovering three boats with over 600 would-be illegal immigrants in the previous 24 hours alone, according to Deutsche Presse-Agentur (dpa). One vessel carrying 315 illegal immigrants, most of them said to be of Pakistani origin, landed late Monday on the small island of Lampedusa, off Sicily. Those aboard were taken to a process-



Immigrants who landed on the southern Sicilian island of Lampedusa in September 2004

ing centre. Hours earlier, another boat carrying 245 people was intercepted by Italian and Maltese units patrolling the Mediterranean Sea. Six Italian motor patrol boats and an aircraft were deployed to track down a third boat carrying some 60 immigrants and thought to be lost at sea.

The Greek coastguard last Tuesday found 16 illegal immigrants near the eastern Aegean island of Samos, bringing the number of would-be illegal immigrants from Turkey to Greece to around 400 in the last three weeks.

According to the reports, the human trafficker would brought the migrants escaped arrest after a sea pursuit.

Croatian police said last Tuesday they arrested 40 illegal

immigrants near the border with neighbouring Slovenia.

The illegals, apprehended near the towns of Bregana and Lepoglava in northern Croatia, were citizens of Serbia-Montenegro, Albania and Pakistan and included two children.

A suspected human trafficker from Bosnia was also taken into custody. And in the Spanish enclave of Melilla, more than 15 illegal immigrants and police officers were injured overnight as police clashed with over 500 Africans attempting to storm the frontier fence separating the enclave from Morocco, police said last Tuesday.

About 100 of the Africans managed to enter Melilla. Some 15 immigrants and several police officers were treated at hospital for slight injuries.

At least three Africans have died during attempts to enter Melilla this year. Police denied accusations that they accidentally killed one of the victims during clashes.

The Spanish government intends to double the lowest parts of the frontier fencing to six metres. The European Parliament in Strasbourg is currently engaged in discussions on setting a common standard for asylum-seekers across all 25 EU member states.

The Common Asylum Standard Directive would set minimum standards for granting asylum. It is part of a programme agreed by EU member states to tighten up their external borders and stop people claiming asylum in several countries.



Passengers wait for a train at the Gare de Nord train station in central Paris

## EU rail passengers to get same rights as airline passengers

The European Parliament last week approved at first reading a new legislative package on railway services and competitiveness in the EU (known as the third railway package). The new provisions introduce the liberalisation of rail passenger traffic and deal with several aspects of the railway services, including passengers' rights and obligations, freight transport and certification of train crews and drivers.

"This package represents for European railways a last chance to invert their negative trend, as over the last years they have been losing passengers to road, air and maritime transport. The EU must boost the liberalisation and interoperability of the railway system, both from a technical and economical point of view. This package represents a step forward in this direction and towards more competitive but consumer friendly modes of transport of passengers and freight," commented Liberal Democrat Paolo Costa (Margherita, Italy), chairman of the Committee on Transport.

With specific regard to railway passengers, the proposal presented by the rapporteur Dirk Sterckx (VLD, Belgium) introduces new rights similar to those of air passengers, simplifying but also widening the scope of the Commission initial draft which. The draft Regulation covers the right to compensation for lost or damaged luggage, death or injury of a passenger, delays (more than one hour, without distinction between ordinary services and high-speed services), cancellations or missed connections, as well as assistance to passengers in case of delay (refreshments, hotel lodgings, transfers).

"There is no logic in only giving rights to international travellers. There is no logic in giving a passenger who is travelling from Paris to Brussels more rights than one going from Paris to Lyon. If we want to achieve a single European rail market we have to give all European rail passengers equal basic rights," Sterckx said. "However we should only regulate what is needed and not intervene in the commercial and marketing policy of a railway company. Railway companies must still have the possibility to offer something more than that foreseen in the regulation."

According to ALDE shadow rapporteur on railway liberalisation, Josu Ortuondo Larrea (PNV, Basque Country) "the opening to competition of the transport services in general and in particular rail transport has to be done in an ordered way and without endangering the existing services of public interest. For that reason, among others, the opening of the international rail services has to go ahead in 2008 and Member States should have the possibility until 2012 to prepare for liberalisation of the rest of national, regional and local services," he concluded.

## EU offers 1 mln Euro in extra aid to Guyana flood victims

The European Commission last week decided to approve an additional aid of 996,500 Euro for victims of floods in Guyana. Nearly 15,000 families will be benefited from projects designed to increase their ability to cope with future disasters.

A separate decision worth 1.2 million Euro will fund recovery support for the most vulnerable populations affected by hurricanes Ivan and Emily in Grenada.

It is estimated that 1,678 families will be benefited from the projects funded.

ECHO, the Commission's department for humanitarian aid, will be managing these decisions. Commissioner for Development and Humanitarian Aid Louis Michel said, "During a recent mission I have seen how vulnerable the Caribbean islands are to natural disasters. These decisions are going to have a real impact on affected populations by bringing their living conditions up to acceptable standards. We know that it is always the most vulnerable people that are affected most by hurricanes, and experts fear there may be more bad storms in store. That is why we have decided to integrate disaster preparedness into both these decisions."

## Commission opens inquiry into Omya's purchase

The European Commission recently opened an inquiry into the Swiss-based Omya's proposed acquisition of J.M. Huber's onsite Precipitated Calcium Carbonate (PCC) business. J.M. Huber is selling its 12 onsite PCC production facilities, which were purpose built on paper mill sites to provide a ready supply of minerals used in paper production.

Six of these plants are in the European Economic Area (EEA), the rest are in the United States, Canada, Brazil and Russia. The Finnish Competition Authority, which considered the deal to have a European dimension, originally referred this case to the EC. The Commission will investigate the markets for all carbonates supplied to the paper industry and not just those produced onsite.

The Commission's initial seven-week investigation indicates that not only are the markets concentrated with high barriers to entry, but also that some customers use PCC and GCC interchangeably and Omya is already the number one supplier of GCC to the EEA's paper industry. The Commission believes there is a serious risk that effective competition will be impaired in these concentrated and complex markets.

## Dutch pay most to EU coffers

Latest European Commission figures show that the people who pay the highest amounts to Brussels, relative to their national incomes, are the Dutch, Germans and Swedes.

A report on the EU's 2004 budget presented week before last by Dalia Grybauskaitė revealed that relative to their GDP, the Netherlands, followed by Sweden and Germany, pay out the most cash to the EU. The Dutch contribution to the EU reached almost 0.7 percent of national income, while Sweden and Germany paid around 0.4 percent. The figures measure the contribution made in 2004 by national governments to the EU budget, minus funds received from Brussels. The biggest recipients as a proportion of national income were "old" member states Luxembourg, Greece and Portugal, followed by "new" member states Lithuania, Latvia and Estonia.

## Refusing reforms: Germany and France paralysed with angst

The elections in Germany and the referendum on the constitution in France had basically the same results: a fatal blow to political leadership, a blockade of the state institutions. Admittedly these two democratic verdicts had also the same cause: the refusal of reforms from the wider part of the public.

By Jorgo Chatzimarkakis

Germans and French are, in this regard, typical examples of the prevailing mood of the enlightened and sophisticated European societies. As if they wanted to slow down the clock because they noticed that it cannot fully be brought to a halt.

Take the German elections for instance, they are a prime example of a people that did not want the former government any longer but dreads the reforms that a new one would entail. If the dumbfounded parties do not want to cheat the voters, then the logical consequence of the election results should be a big coalition.

Many advocate against this unholy and forced alliance synonym of deadlock. But this view could not be more wrong.

The big coalition of the 1960s did not bring a standstill but a deceleration of the political process. The government of the time even succeeded in launching far-reaching reforms albeit wrong ones. These distorted German federalism to such an extent that its reforming ability is still suffering today from the permanent blocking capacity of the parliament's second chamber, the Bundesrat. From a competition between the regions the decision-making process evolved into a far more complex political system, ultimately slowing it down considerably. What conclusions can be drawn for today's situation?

We should read the signs without negative a priori. The first sign is clear: "we need reforms." But the second reminds us that the public wants to go slowly, slower. Looking at the signs, conclusions are twofold: a mandate



Dr Jorgo Chatzimarkakis, MEP

for a big coalition and undoing the deadlocks impeding the federal system. Taking one step at a time and please with more explanations! Complex socio-economic issues must be explained but the political leadership is hardly able to do so.

Neither the French political elite nor that of Germany could explain to its citizens why the European constitution and a reform-minded federal government are the right (and only) answers of Europe to the Chinese "turbo" globalisation. Then again many politicians themselves do not understand the inner logic of the Chinese challenge. They gladly close their eyes when faced with reality.

On the one hand Germany rejoices at being a leader in world exports, on the other hand, it brushes aside the other side of the coin, namely the opening of its own job market, and with it the urgently needed reforms.

France and Germany now have the duty to put things right. In Germany, only the combined effort of all parties, of a quasi ecumenical government, will save our societal model. The latter must be transformed, bit by bit, slowly but surely. For the next generations' sake the selfishness of individuals and parties must be cast aside.

Dr Jorgo Chatzimarkakis, MEP

**T**he European Court of Justice has ruled that Belgium must pay unemployment benefits to EU citizens seeking a job in the country, expatica reported recently. The Luxembourg-based court said foreigners who had completed secondary education in another EU country had the right to claim Belgian unemployment support. Belgium's refusal to do so was a breach of European Community law, said the judges.

In the issue 644 (September 25-October 1) there was a misprint of the picture of British Home Secretary Charles Clarke and the caption of Commissioner Dalia Grybauskaitė. We regret the error. : Eds

## EU to hold eleventh-hour talks on Turkish entry

**E**uropean Union foreign ministers will hold eleventh-hour talks in Luxembourg to approve a mandate for opening membership negotiations with Turkey, diplomats in Brussels said last Thursday. The meeting will be held on Sunday night (October 2), the eve of the scheduled October 3 start of membership negotiations with Ankara. The decision to hold the last-minute

ministerial meeting was taken after senior EU officials failed once again to approve a framework for the negotiations with Turkey.

Diplomats said the delay in formal adoption of the mandate did not endanger the planned start of talks with Turkey, since all key provisions of the text were agreed by EU governments. But they said Austria was holding up formal approval of the text by de-

manding that provisions should be made for offering Turkey an alternative to full EU membership.

Vienna is also insisting that the EU should set a date for the early opening of entry negotiations with Croatia.

EU foreign ministers are expected to finalise the Turkish mandate at a working dinner on October 2, just hours before membership talks open with Ankara.

Struggling to meet Austrian demands on Croatia, ministers have also scheduled a meeting with Carla Del Ponte, the chief war crimes prosecutor for the former Yugoslavia, on October 3.

EU ministers are expected to set a date for opening negotiations with Croatia if Del Ponte can reassure the EU that Zagreb is fully cooperating with the United Nations tribunal in the Hague.

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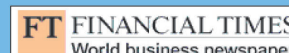
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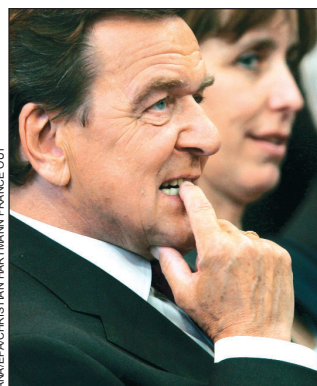


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**[www.UkraineFacingTheFuture.com](http://www.UkraineFacingTheFuture.com)**

## Schroeder plans to attend upcoming EU summit

German Chancellor Gerhard Schröder plans to attend October's European Union summit to be held near London despite his coalition's election defeat, a government spokesman said last Wednesday. "The German government will naturally be represented by the chancellor," said Schröder's deputy spokesman Thomas Steg at a news briefing. Schröder's Social Democratic (SPD) coalition with the Greens lost



*Pensive German Chancellor Gerhard Schröder*

its parliamentary majority in Germany's September 18 elections. Despite the fact that his SPD came in second place and has 222 seats in the new parliament, Schröder is still insisting that he stay on as chancellor. Conservative challenger Angela Merkel's Christian Democratic alliance (CDU/CSU) have 225 seats in the Bundestag and Merkel says she has won the right to be the next chancellor. The summit of 25 EU member state leaders will be held at Hampton Court west of London on October 27 and 28. After Schröder was first elected in 1998, then Chancellor Helmut Kohl allowed the incoming German leader to represent him at an EU summit in Austria even though he was not yet in office. Asked why this precedent should not apply to Merkel, Steg replied that the summit was only for heads of state and government. "This rules out anybody taking part who does not hold office," he said.

## Germany rejects EU claim deficit is understated

Meanwhile, Berlin last week rejected a claim by European Union statisticians that Germany's already overstressed public deficit may hit 4.0 percent this year and said the EU got its calculations all wrong. The EU statistics agency Eurostat unveiled its own calculation of this year's increase in the indebtedness of Germany's federal, state and local governments.

Under Eurozone rules, they are not supposed to lift net debt by more than 3.0 percent of gross domestic product (GDP) in any one year. Germany admits the deficit will this year total 3.7 percent, but is on its way down. Economists at Eurostat disagree. A spokeswoman for EU Monetary Affairs Commissioner Joaquín Almunia said Germany had wrongly treated a sale of financial securities to capital markets as a repayment of debt and the true deficit was higher. The securities shift the burden of pension payouts for staff of the former post office from the federal government to private investors in exchange for a huge one-off payment to Berlin. To reduce net debt, governments must either stop borrowing or sell state assets.

The post office's operations have already been privatised as two huge companies, Deutsche Telekom and Deutsche Post. The finance ministry in Berlin retorted that the payments did reduce the deficit. It said German government statisticians agreed. "We don't see the Eurostat letter as final. It's just a point of view," said a spokesman. Germany's vast scale of public borrowing is seen by economists as a potential threat to the Euro single currency, although the issue is not acute because of the far larger scale of current US borrowing. Germany has been in breach of the Stability Pact since 2002. Before the election on September 18, the government denied it had secret austerity plans to stop the budget going out of control. Almunia, who comes from Spain, is set to decide in November whether to seek penalties against Germany. For the past two years, the procedure to impose sanctions has been left on hold after pressure from Paris and Berlin on EU finance ministers.

**T**he European Commission has cleared the proposed acquisition of Lynx Express Ltd (Lynx), a UK-based parcel delivery company, by UPS (UK Holding) Ltd (UPS UK), the Britain-based subsidiary of the US company United Parcel Service, it was reported last week. The Commission approved the acquisition after thorough examination that the transaction would not significantly impede effective competition in the EEA or any substantial part of it. UPS UK provides for its customers in the United Kingdom package delivery services, including domestic and international standard and expedited parcels and documents services, as well as freight services and logistics.

# Parliament approves EU talks with Turkey

**D**espite concerns about Cyprus and human rights, the European Parliament last Wednesday formally approved opening negotiations with Turkey for membership in the European Union. In a resolution adopted by 365 votes in favour, 181 against and 125 abstentions, the Parliament officially declared that accession negotiations between the EU and Ankara can start on October 3, as foreseen.

However, European deputies also approved, by a narrow margin, a proposal by centre-right wing factions to postpone the vote on approving the protocol extending Turkey's customs union with the EU and all its members, including Cyprus. Although Turkey approved the customs union with all 25 members, it added an appendix which said that this did not signify recognition of the Greek-led government of Cyprus. The appendix, the Parliament declared in the resolution, "cast serious doubts on (Turkey's) willingness to fully implement all provisions" of the customs union protocol.

The European Commission is therefore to assess at the end of 2006 if Ankara has fully implemented the protocol. If not, it could lead to a cessation of the negotiations.

Turkey occupied the northern part of Cyprus in 1974 in protest at a Greek-Cypriot coup on the island and is the only country not to recognise the Republic of Cyprus. Ankara recognises the Turkish-Cypriot north of Cyprus as the island's only legitimate government.



*European Parliament members vote on a resolution accepting the start of accession negotiations at the end of a debate on the EU-Turkey relations in Strasbourg, eastern France, September 28, 2005*

The European Parliament also voiced its concern about criminal proceedings against Turkish author Orhan Pamuk, who has been charged with public denigration of Turkish identity for telling a newspaper, "Thirty thousand Kurds were killed here, one million Armenians as well. And almost no one talks about it."

It also raised questions

about an article in the Turkish penal code that criminalises "acts against fundamental national interests."

In the debate before the vote, British Minister for Europe Douglas Alexander, speaking on behalf of the EU presidency, said Turkey still has a lot to do to reach European standards. However, he noted that thanks to its desire to join

the EU, Ankara had already achieved impressive progress.

EU Commissioner for Enlargement Olli Rehn said that the bloc needs a stable, democratic and increasingly prosperous Turkey that accepts European values, which is why it was decided to start accession talks. "The EU expects the full implementation of the additional protocol, including (the removal of) all obstacles to the free movement of goods," Rehn said. Several deputies called on Ankara not to wait until the end of accession negotiations - which could last up to 15 years - before recognising Cyprus.

Social-democrat faction leader Martin Schulz of Germany's SPD party said, "It can not be that a country applies for membership but does not recognise all member states."

Speaking in favour of Turkey's accession to the EU, British parliamentarian Andrew Duff said: "It is extraordinary that those who have profited so much from EU integration in terms of prosperity, security and liberal democracy should refuse to extend these prizes to Turkey." Duff also argued that the Cyprus issue could not be resolved if Turkey is not allowed to join the Union.

However, another British deputy, Roger Helmer, supported the proposal of conservative German politician and possible future Chancellor Angela Merkel, who has called for a privileged partnership for Turkey, rather than full EU membership. The key condition, he said, should be "democratic accountability."

## EC supports adult education with 30 mln Euro grant

The European Commission last Monday decided to grant over 30 million Euro to European cooperation projects, specifically in the field of adult education. The package - funded by the Grundtvig action under the EU's education/training programme Socrates - will support 2,500 organisations involved in the general education of adults.

Jan Figel, European commissioner in charge of education and training, said that for the future of the Union it is important to promote adult education. Figel said, "Learning does not stop when you finish school or university. We live in a rapidly changing world in the Information Age, and our workforce must make sure it has the general skills required by our demanding globalised environment. Also, as our society ages, it is more important than ever before that adults continue to

learn new skills or refresh old knowledge throughout their lives."

The commissioner pointed out that the Grundtvig funding boosts the support given to adults from all walks of life all over the EU to equip themselves with the basic skills needed to confront the challenges.

Almost 17.5 million Euro is available to participants in 2005-2006 via national agencies that manage these actions in each participating country.

In 2005, it is anticipated that over 400 Learning Partnerships involving almost 1,800 adult education institutions will be grant-aided, and well over 1,000 adult educators will have the opportunity of updating their skills through training grants and visits to conferences and seminars in other European countries, thanks to Grundtvig support, the European Union



*Support for education is key*

said in a statement.

Its particular focus is on providing European learning opportunities for disadvantaged sections of the population. This year, 71 new cooperation projects and 10 networks and thematic seminars, have been selected among more than 430

applications from all over Europe. Each project will receive on average a grant of between 60,000 Euro and 340,000 Euro for duration of one to three years. Altogether, the Commission will devote more than 16 million Euro to the funding of these initiatives.

# VW to build SUV in Germany

Volkswagen said last Tuesday it would build its compact new sports utility vehicle (SUV) in Germany after labour leaders agreed to lower rates of pay on a separate production line. Europe's biggest carmaker had threatened to transfer the project to its plant at Palmela in Portugal where pay-scales are lower. In a fresh blow to labour power, all 1,000 staff on one assembly line at the company's giant Wolfsburg plant will receive learner wages to assemble the SUV, a high-slung, four-wheel-drive version of the VW Golf. Volkswagen has dubbed the model the "Marrakesch" in Germany but has yet to set its name for other markets.

The IG Metall trade union praised the deal, saying it had not budged over pay in Volkswagen's main departments, but VW head of brands Wolfgang Bernhard warned "all the people who think this solves all Volkswagen's problems" that the deal was just the beginning.

The company already builds another Golf derivative, the Touran minivan, at lower pay rates in Wolfsburg, but most of the site's labour force are still receiving high wages won in the golden years before Volkswagen's volume car business turned sour. The company also announced it would build a coupe version of its larger Passat family saloon from 2008 at a



Bernd Osterloh (L), Volkswagen's (VW) general shop chairman shakes hands with Wolfgang Bernhard, VW's chairman of the board, while standing in front of a covered concept car study at the design department in Wolfsburg, Germany, September 27, 2005

plant in nearby Emden provided unions agreed next month to "optimise" pay costs there.

Wolfgang Clement, Germany's caretaker economics minister, said the deal proved German labour could meet the challenge of globalisation. Porsche, the German maker of SUVs and sports cars, announced last Sunday it will seek a 20 percent stake in VW, which has been hit by weak sales in its main Chinese and German markets. VW's largest share-

holder currently is Lower Saxony state with 18.2 percent.

Lower Saxony Premier Christian Wulff, who has a board seat, denied last Tuesday news reports that he was in a power struggle with supervisory board Chairman Ferdinand Piech, who owns a large stake in Porsche and is widely believed to be behind the VW purchase.

Deutsche Bank, which had advised investors Monday to get rid of their Porsche shares, changed its mind last Tuesday

after a briefing from Porsche and rated the shares as worth holding. "We've gained the impression that cooperation between Porsche and VW will be more involved than we thought at first," said analyst Christian Breitsprecher. Volkswagen stock rose 0.6 percent to 51.88 Euro Tuesday on the Frankfurt Stock Exchange. Porsche preferential stock rose 4.5 percent to 635 Euro. All voting shares in Porsche are held by the Piech and Porsche families.

## Czech environment agency picks Prius

An electric hybrid Toyota Prius is the new around-town car for the Czech Ministry of Environment, it was reported last week. The ministry's office chief, Miroslav Jandura, said the fuel-sipping, low-emission Prius will be used for running general errands in Prague. It's the first electric car in the government's fleet, which is dominated by Czech-made Skodas with petrol or diesel engines. "Hybrids are advantageous for operating in a congested city," Jandura said. In September, the ministry paid Toyota 500,000 Czech crowns (USD 20,800) for a used, test-model Prius with 30,000 kilometres. Jandura hinted the government may buy more hybrids in the future, noting Skoda's owner Volkswagen may bring a hybrid car to market by 2008.

## Austin-Healey reanimation project

A British automobile enthusiast of Indian descent, Krish Bhaskar, plans to revive the legendary Austin-Healey 3000 with a prototype close to completion, according to reports last week. Bhaskar, who had led a bidding consortium for the bankrupt MG Rover concern, is apparently close to sealing a deal with several investors in the "Project Tempest" after the bid for MG Rover failed, according to several British press reports. Optically the prototype closely resembles the Healey 3000 with elements of the Pontiac Solstice and BMW Z4. The Tempest is expected to sell at about 37,000 Euro (USD 45,000). The basic version reportedly has an acceleration of five seconds from zero to 100 km/h with the top speed of 250 km/h regulated. Bhaskar has so far not revealed with what engines the sports car will be equipped with. Neither Bhaskar nor his Miru company have the rights to the Healey name. According to a report in Autoblog, Bhaskar is also planning a bigger coupe in the range of the Mercedes CLS under the Riley brand and an SUV under the Wolseley name. However, the rights to Riley are currently owned by BMW while the Wolseley name belongs to the new Chinese owner of MG Rover, Nanjing Auto.

## Diesel beats Hybrid in "coast-to-coast" test

A Mercedes ML 320 CDI beat a hybrid Lexus RX 400 H in a US coast-to-coast fuel consumption test, Germany's Auto Bild newspaper reported last week. In the 5,200-kilometre test from New York to San Francisco, the Mercedes diesel averaged a consumption of 9.1 litres per 100 kilometres while the Lexus Hybrid recorded a fuel consumption of 10.2 litres. In city traffic, where the hybrid performs best, the diesel Mercedes burned only 0.2 litres more fuel, the report said concluding that modern diesel engines were superior to hybrids as far as fuel consumption is concerned. The test Mercedes was fitted with a 165kW/224 hp engine and the Lexus with a 155kW/211 hp motor. However, the Mercedes did record one disadvantage compared with the Hybrid. Although fitted with a diesel particle filter, it recorded a 10 times greater emission of nitrogen oxide than the Lexus.

## Nissan to open global production engineering centre

Nissan Motor Co plans to open a 5.1 billion yen (USD 45 million) global production engineering centre about 40 kilometres outside of Tokyo in March 2007, said the automaker in a statement last Monday. The 30,000-square-metre facility is to help Nissan's mid-term business plan, Nissan Value-Up, to introduce 28 all-new models and to increase global sales to 4.2 million units between April 2007 and March 2008. The new engineering centre will also create 350 jobs, bringing the total number of employees to 1,280, in Zama City, Kanagawa Prefecture. As part of its ongoing commitment to world-class quality, Nissan is trying to centralise its operations in one location. Some facilities built in other locations such as a pilot plant for testing equipment for overseas plants and a warehouse for historic vehicles will be transferred to the new centre. The 21,000-square-metre property, which housed the warehouses, will be sold to Vantec Corporation. "The new global production engineering centre will focus on drastically improving the quality of new vehicles through the concentrated trial production and quality analysis of new vehicles in all stages of production, from press shop to trim and chassis," Sadao Sekiyama, Nissan's senior vice president and head of vehicle engineering production, said in the statement.

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## Chinese Landwind fails crash test

The Landwind, a cheap Chinese Sports Utility Vehicle (SUV), recently presented on the European market at the Frankfurt Motor Show, has failed dismally in a crash test conducted by Germany's largest automobile association ADAC, it was reported last week.

The ADAC described the result of the crash test as "catastrophic" and the worst in the two decades it has conducted crash tests. "No vehicle has so far had worse results," the ADAC said in its highly critical report.

The passenger cell of the almost two-tonne SUV "broke away completely" in the 64-kilometre, head-on-collision test. "The driver would have had no chance of survival," the ADAC said.

In the 50-kilometre side-impact test, the driver would sustain serious head injuries, according to the association. "Vehicles like the Landwind do not remotely comply with the very high safety standards required for cars in Europe," the ADAC said.

ADAC President Peter Meyer added that high safety

requirements had in recent years significantly reduced the number of road deaths in Europe.

Vehicles with such a low safety standards should not be permitted onto European roads, the ADAC said in its lambasting criticism.

In its road test, the automobile club also criticised the Landwind's bad roadholding quality, poor steering, the lack of such extras as ESP (Electronic Stability Programme), ABS (Anti-Lock Brake System), long braking path and poor fuel consumption of 11.6

kilometres per 100 kilometres.

The basic version of the Landwind is selling in Europe at a price of just under 15,000 Euro (USD 18,200) with the four-wheel drive version priced at 18,750 Euro.

Peter Dahlmann, a German importer of the Landwind, told Autohaus online however that he is convinced that the Landwind will find its buyers in Germany "because a lot of cars are offered at an unbeatable price" in the car segment currently dominated by SUVs such as the Opel Frontera.

## Relaxed driving style saves fuel

Soaring petrol prices have severely dented many a household budget but a relaxed driving style can make a big difference. The Auto Club Europe (ACE) has calculated that only a few simple changes to your driving style can improve fuel consumption by more than one litre per 100 kilometres. One of

the first things drivers can do to conserve fuel, is to adapt the driving style to the traffic flow and take the foot off the accelerator in time, according to the ACE. Other useful tips are:

- Avoid aggressive acceleration.
- Change into the next gear as soon as possible. The revs

should not be too high or too low.

- Switch off the engine when stopping for longer than 15 seconds at a traffic light or crossing.

- Check the tyre pressure. Low tyre pressure increases fuel consumption.

- Avoid transporting unnecessary luggage. Remove roof

racks when not in use as they increase drag and fuel consumption.

- Minimise the use of air-conditioning which can increase your consumption by 10 percent and more.

- Service your vehicle regularly. A smoothly running engine uses less petrol.

## Uzbekneftegaz, Gazprom to ink 4-yr gas transit deal

Russian gas giant OAO Gazprom and Uzbek state oil and gas company Uzbekneftegaz plan to sign an agreement to transport natural gas through Uzbekistan in 2006-2010, a source in Uzbekneftegaz told Interfax recently. He said Gazprom CEO Alexei Miller was expected to travel to Tashkent last Monday for this reason. During his talks with Uzbekneftegaz management, Miller was expected to also discuss the conditions of a contract between OOO Gazexport and Uztransgaz for supplies of Uzbek natural gas to Russia. The Uzbek side was expected to provide Gazprom with information on the results of diagnostics carried out on the gas transport system Central Asia-Centre in Uzbekistan, which is necessary to prepare a feasibility study for its reconstruction. It is expected that Miller will be received by Uzbek President Islam Karimov. Uzbekneftegaz and Gazprom signed a strategic cooperation agreement in the gas industry on December 17, 2002. The agreement calls for long-term purchases of Uzbek gas for 2003-2012, Gazprom participation in projects to produce natural gas in Uzbekistan under PSA, and cooperation in the development of gas transport infrastructure in Uzbekistan and the transport of Central Asian gas through the country.

## Transneft IAS profit increases 31% in Q2

Net profit at Russian pipeline monopoly Transneft to international accounting standards (IAS) in the second quarter 2005 increased 31 percent to 12.531 billion rubles, the company said in a recent report. Sales revenue in the second quarter increased 21.5 percent to 44.552 billion rubles, with expenditure on core activity up 18 percent to 26.133 billion rubles. Net profit in the first half increased 23.4 percent to 26.694 billion rubles, the report said. Sales revenue in the first half rose 29 percent to 91.184 billion rubles, with expenditure on core activity up 31 percent to 53.344 billion rubles. Profit from core activity increased 23 percent to 36.795 billion rubles. In the first half the company's debt fell from 80.156 billion rubles to 78.797 billion rubles. Long-term debt fell by 14 percent to 42.658 billion rubles, with short-term debt down 19 percent to 36.139 billion rubles.

## TNK-BP to start feasibility study for Kovykta project

At a recent forum of Russian-Chinese interregional cooperation in Daliang, Oleg Rumyantsev, advisor to the TNK-BP president, said that TNK BP is ready to begin feasibility study on the Kovykta gas-condensate project, Interfax reported. He said investment in Russia could exceed 12 billion Euro. A key to developing East Siberian fields is the creation of the Asian energy export corridor from East Siberia to northeast China," he said. Priority should be given to integrated Sakhalin and East Siberian gas projects," Rumyantsev said. Proven reserves in the Kovykta fields total more than two trillion cubic metres of gas.

## Russia mulls building 2 pipelines to China

Russian gas giant Gazprom is currently negotiating the possible construction of two gas pipelines running to China with a number of Chinese companies, member of the Gazprom management committee and Director General of Gazexport, Alexander Medvedev, said at a meeting in Beijing on September 21. "Gazprom is looking at the possibility of constructing two gas pipelines, one eastern, one western, to China and is holding negotiations with Chinese companies," Medvedev said. He added that no decision has yet been made as to which project should be given priority, as Russian and Chinese specialists are evaluating both projects closely. The eastern project envisions an outlet from the Sakhalin-Vladivostok pipeline, with the western seeing an outlet from the Krasnoyarsk-Novosibirsk-Novokuznetsk pipeline passing through Gorno-Altai. It would be premature to talk about specific dates for the implementation of these plans, he said. "It is necessary first to agree on the purchases of the gas itself and to sign contracts and only after these steps have been taken will it be appropriate to move on to the particular aspects of transportation and supply," he added. The capacity of the two pipelines will be enough to deliver 40-50 billion cubic metres of gas to China from Eastern Siberia, Yakutia and Sakhalin, he said.

# LUKoil-ConocoPhillips JV to pump USD 2 bln into Nenets

The Naryanmarneftegaz joint venture between LUKoil and ConocoPhillips plans to invest some USD 2 billion in efforts to put the South Khylychuyus field in the Nenets Autonomous District, which will produce 7-7.5 million tonnes per year of oil, on stream during the next two years, the district's administration told Interfax recently.

The administration said the amount was mentioned during public hearings on the project on September 22. The licence states that the joint venture must begin commercial development at the field not later than 2007, but there could be a slight delay. "Surveying is under way and tenders to find contractors and procure equipment and other inputs are being prepared. Commercial development will begin in 2007-2008," the administration said, quoting the developer.

"The project involves dr-



A LUKoil oil rig in Kogalym

illing 46 production wells and 44 injection wells, building a road to Dresvyanka and equipping a dock. The oil will be delivered to the Varandei terminal and loaded onto tankers to be shipped to Amsterdam," the

source said.

"The project has received almost all necessary approvals and passed nearly all appraisals," the administration said. Output at the field will peak at 7-7.5 million tonnes.

The field is 120 kilometres from Naryan-Mar and 80 km from the settlement of Kharyaginsky. The joint venture holds 11 development licences. It also holds two exploration licences for three prospects.

## Rosneft chief values company at USD 30 bln

Rosneft chief Sergei Bogdanchikov valued Russia's only state-owned oil company at USD 30 billion during a conference with heads of Rosneft subsidiaries at the beginning of September, Severnaya Neft, one of the company's main upstream subsidiaries, said on its website on September 26.

"As regards creating value for our shareholder, the state, the company's value has increased from USD 500 million in 1998 to over USD 7 billion last year and approximately

USD 30 billion today," Bogdanchikov was quoted as saying.

"The company could be worth USD 70-80 billion in five years and more than USD 100 billion by 2015," he said. That would put Rosneft on a par with the world's fourth or fifth ranking oil companies, he said.

Rosneft will achieve this by virtue of its "extensive resource-base, which is constantly being increased." One example, he said, was the launch of the production phase of the Sakhalin-1 project, due

on October 1. We aim to increase oil production by 6-7 percent annually, which is above the average for the sector," Bogdanchikov said. He said Rosneft aimed to produce 75 million tonnes in 2005, rising to 82 million tonnes in 2006, 106 million tonnes in 2010 and 135-136 million tonnes in 2015.

As for gas, Bogdanchikov said "we should be producing 60-70 billion cubic metres and become a significant player in the Russian gas sector also." He did not say when this might

happen.

The most recent independent valuation of Rosneft, performed by the investment bank Morgan Stanley at the start of 2005, said the company was worth USD 26 billion.

Rosneft is planning to have a new independent valuation performed for an IPO to raise the funds to pay off a USD 7.5 billion bank loan to finance the acquisition of 10.74 percent of gas giant Gazprom. Rosneft told Interfax that the valuer has not been selected yet.

## Gazprom, Petro-Canada to complete plant in 2007

Russian gas giant OAO Gazprom and Canada's Petro-Canada plan to complete construction of a liquefied natural gas plant in Leningrad region in 2007, the region's Deputy Governor, Grigory Dvas, said last Monday.

He also said that construction of the section of the North TransGas pipeline that passes through Leningrad region began about two months ago.

"The route of the pipeline has been agreed and at the moment there are no obstacles to the carrying out of all work on time by 2007. This deadline is totally realistic, as the companies that are building the liquefied natural gas plant are ready to complete construction in 2007, and are confident that the gas pipeline will start to function by that time," Dvas said.

The regional government's

press center was unable to say what stage the construction of the plant is at. A memorandum signed by Gazprom and Petro-Canada in October of last year calls for studying the possibility of supplying LNG from Russia to the North American market by 2009. According to this document, joint research will be carried out into all aspects of producing LNG, including liquefaction, regasification and mar-

keting of Russian gas on the North American market.

The memorandum calls for the joint preparation of a feasibility study for the construction of a LNG plant in Leningrad region and supplies from this plant to North America. Gazprom and Petro-Canada should set up a joint management committee. The US is one of the most promising LNG markets in the world.

## Kudrin against increased state role in oil

The state's increased role in the oil sector is holding the sector's development back, Russian Finance Minister Alexei Kudrin told reporters in Washington on September 25. "The state's increased role in the oil sector is holding back that sector's devel-

opment if anything," Kudrin said, adding that this was his personal opinion.

Kudrin said he and some other finance ministers said at the IMF/World Bank meeting that they thought state or interstate regulation of oil prices was

unacceptable. "Market regulation alone will resolve issues like attracting the investment to enable us to increase oil supply," Kudrin said, adding that several of his foreign colleagues had called for subsidising the market in order to take some of

the heat off prices. "But many ministers emphasised that covert price regulation was going on and would have the reverse effect, restraining the sector's growth and possibly worsening the situation on this market," Kudrin said.

# Gazprom becomes energy heavyweight with Sibneft buy

Russian energy giant Gazprom last Wednesday bought 72.6 percent of the Sibneft oil company for USD 13.1 billion in the biggest state buyout in the country's post-Soviet history. The deal appears to realise the long-held ambitions of Gazprom to become a global energy heavyweight capable of supplying even remote markets like the United States.

Core shareholders including 38-year-old Russian tycoon Roman Abramovich and a group of current and former Sibneft managers sold their entire stake to the semi-state-owned gas monopolist. The sale was finalised in Moscow by Gazprom and the Millhouse Capital holding.

Gazprom, which earlier bought three percent of Sibneft as it branched into the oil sector, reportedly financed the purchase with credits from ABN Amro, Dresdner Bank, Citigroup, Credit Suisse First Boston, Goldman Sachs and Morgan Stanley.

"We are steadily addressing the strategic task of diversifying our business and transforming Gazprom into a global energy company," Gazprom CEO Alexei Miller said after the acquisition.

Gazprom board chairman Dmitry Medvedev is also head of the administration of President Vladimir Putin.

London-based Abramovich acquired his controlling stake in Sibneft during the controversial privatisations in Russia in the



Chelsea Football Club owner Roman Abramovich watches his favourite team. Abramovich walks away with a huge windfall after the sale of Sibneft to Gazprom

1990s. The sale is the first time one of Russia's oligarchs of the 1990s has successfully cashed out his Russian holdings. The others have been hounded into exile by the authorities or remain in Russia.

Mikhail Khodorkovsky, formerly the richest Russian and head of Russia's YUKOS oil company, is serving an eight-year sentence after being convicted of fraud and tax evasion. With the Sibneft sale, Abramovich walks away with a huge windfall.

Gazprom would pay roughly USD 3 a barrel for proven reserves at Sibneft, including rich fields in western Siberia. That compares to the USD 2.40-a-barrel market valuation of the reserves of the largest Russian oil company,

LUKoil.

The purchase would put roughly one-third of the country's oil production - but most of its overall energy resources when natural gas is considered as well - under state control. Sibneft pumps about 650,000 barrels of oil a day and is the fifth-largest Russian oil company by production.

That continues a process begun with the dismantling of YUKOS last December after the arrest of the oil company's head, Khodorkovsky, a year earlier.

It also propels Gazprom, already the largest natural gas producer in the world, further into the oil business and adds to its already huge reserves, mostly in Siberia and the Russian Arctic.

After an acquisition of Sibneft's reserves of six billion barrels, Gazprom would own 116 billion barrels of oil and oil equivalent in natural gas. That ranks the company behind only Saudi Arabia, with 263 billion barrels of reserves, and Iran, with 133 billion barrels of reserves.

A consortium of Western banks financed the deal. Meanwhile, Gazprom said last Thursday that it would submit to the government within the "coming days" a legal blueprint for removing restrictions on foreign ownership of its shares. The Associated Press reported from Moscow.

The company also repeated a pledge to give foreigners full access to its shares by the end of the year.

## Rosneft, ONGC considering joint far east projects

Russian oil company Rosneft and India's Oil & Natural Gas Corp. (ONGC) are considering a number of joint projects in the Far East region of Russia, Industry and Energy Minister Viktor Khristenko said at a last Friday press conference. Rosneft and ONGC are holding talks on other projects (in addition to Sakhalin-1, which may be implemented in the Far East region," Interfax quoted him as saying. He said



Viktor Khristenko

that the potential for oil and gas cooperation between Russia and India is good. "The experience of ONGC's inclusion as a partner in the Sakhalin-1 project is unprecedented in terms of its length and its volume," Khristenko said. This cooperation is being helped by the good relations between Russia and India. According to the minister, these countries are also considering projects in other countries, in particular to supply natural gas to India from Iran. "Russia is a large supplier of energy and India is one of the largest consumers," Khristenko said. "Our countries have a good chance to discuss opportunities and risks, so that the market is predictable and understandable," he said. Rosneft President Sergei Bogdanchikov said at the press conference that the Far East is an area of strategic interest to Rosneft. "And we are interested in expanding the raw material base [in this region]," he said. He said that the company's actions will be decided by specific auctions, and also the start price for reserves being offered for sale. A possible joint project for Rosneft and ONGC may be to participate in an auction for the development of Sakhalin-3 fields. However, ONGC Videsh Vice President M. K. Nayyar said last Friday that a decision has not yet been reached on joint participation in this project. "We may take part separately, or together with Rosneft," he said. Sakhalin-1 involves the development of the Arkutun-Dagi, Odoptu and Chaivo fields off the north coast of Sakhalin. Estimated reserves at the fields amount to about 307 million tonnes of oil and 485 billion cubic meters of natural gas. Capital investment in the development of all the fields in the project is estimated at over USD 12 billion.

## Russia has no plans to split oil companies

Russian Industry and Energy Minister Viktor Khristenko said last Friday that the government has no plans to split oil companies and that, on the contrary, there is a trend towards enlargement. Nobody is hatching any plans to split them," Khristenko said. "This would be strange against the backdrop of the world market" he said, adding that world oil companies have shown numerous examples of mergers and acquisitions. Moreover, the implementation of global projects is becoming increasingly expensive and risky, "which requires new resources," Khristenko said. He said that the enlargement trend is characteristic of other sectors of the economy also, for example aviation construction.

## Russneft buys Udmurtskaya oil co. from TNK-BP

RussNeft Oil & Gas Company has bought all of the shares in Udmurtskaya Oil Company from TNK-BP, RussNeft said in a press release last Friday. The change of ownership was entered on Udmurtskaya Oil Company's register on September 29, the release said. TNK-BP's Udmurtneft and Sidanco units had already divested all of their ownership interests in Udmurtskaya Oil Company. The Fuel and Energy Sector's Central Dispatch Centre has said Udmurtskaya Oil Company produced 68,600 tonnes of oil in 2004 and 36,800 tonnes in January-August 2005.

## Transneft submits feasibility study of pipeline

Transneft has submitted a feasibility study of the first segment of the East Siberia - Pacific oil pipeline system to ministries, a source in the Russian Industry and Energy Ministry told Interfax.

"Transneft has submitted a feasibility study only of the first segment of the pipeline (Taishet-Skovorodino). It does

not plan to submit a feasibility study of the second segment in the near future," he said.

If the government and environmental services approve the feasibility study, the project will be launched, the source said.

Prime Minister Mikhail Fradkov approved the construction of the East Siberia - Pacific

pipeline on December 31, 2004. The resolution said that the oil delivery system, with total annual capacity of 80 million tonnes, would be built step by step and would include a railroad.

At first, it is planned to lay a 2,400-kilometer pipeline from Taishet to Skovorodino and build an oil terminal in the Perevoznaya Bay on the Primorye

territory. Oil will be delivered to the Perevoznaya Bay by rail. Transneft was ordered to finalize the first phase of the project in the second half of 2008.

West Siberian oil will be delivered through the pipeline. The second phase of the project stipulates the construction of a pipeline from Skovorodino to the Perevoznaya Bay.

## LUKoil Overseas to buy 65% of Nelson Resources

LUKoil Overseas has made an offer to buy 100 percent of Nelson Resources Limited, a Bermuda-registered oil exploration and production company with operations in Kazakhstan, for USD 2 billion, Interfax reported last Friday, citing a LUKoil press release.

LUKoil said it had so far reached final agreements with the holders of 65 percent of Nelson to buy their shares at the

offer price.

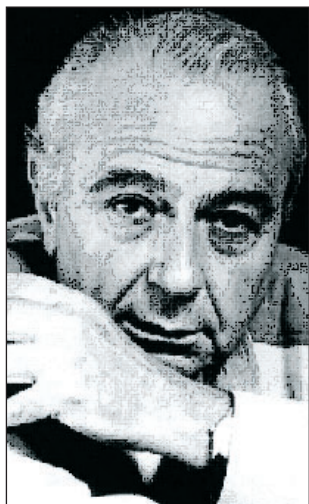
LUKoil said the price was equivalent to a premium of 27.5 percent on Nelson's average share price for the last six months. "LUKoil has entered into negotiations with the company to offer the same price to minority shareholders so that the offer is fair for all," the release said.

LUKoil also said it would apply to Kazakhstan's regulato-

ry bodies to obtain clearance for the transaction. "We are satisfied with the agreement with Nelson's core shareholders to buy the controlling interest.

Kazakhstan is a key region in our international strategy. The Nelson acquisition will be a significant addition to our assets in the Caspian region," the release quoted LUKoil President Vagit Alekperov as saying. Nelson has proven and

probable oil reserves of 269.6 million barrels. The company produces hydrocarbons at the Alibekmol, Kozhasay, Karakuduk, North Buzachi and Arman fields in western Kazakhstan. It is co-operator in most of the projects. Nelson also is also party to an option agreement for two exploration blocks, South Zhambay and South Zaburuny, in the Kazakh sector of the Caspian.



World famous Cypriot theater and cinema director Michael Cacoyannis. His film "Zorba" won three Oscar Academy awards



Co-starring in Mel Gibson's "The Passion of Christ" as Mary, Maia Morgenstern



"Lysistrata" Maia Morgenstern, Vladimir Ivanov

## "Lysistrata" in Brussels by Michael Cacoyannis

The "Committee for a European solution in Cyprus" following the presentation at the European Parliament of the study "A principled basis for a just and lasting Cyprus settlement in the light of International and European law" on October 12, presents the theatre performance "Lysistrata" directed by the renowned director of "Zorba" Michael Cacoyannis. The performance will take place at Le Residence Palace, Brussels at 09.00 pm, October 12.

The most popular of Aristophanes' comedies was adopted by M. Cacoyannis for the first time in 1972 and was staged at Broadway starring Greek legend Melina Mercouri.

Today, Cacoyannis stages

"Lysistrata" in a cabaret version starring world famous Romanian actress Maia Morgenstern and Romanian actor Vladimir Ivanov. Using only two actors, the director covers the whole casting spectrum in this "different" Lysistrata. The eternal message of peace emerges from a performance filled with humor, music and songs. The texts and songs selected show the way against war and violence, against anything non-creative, anything non-humane.

"Lysistrata" cabaret version was first performed at the Athens Concert Hall with great success. It was then performed in Cyprus and at the Art Carnation festival in Austria with excellent reviews. Back to

Greece "Lysistrata" was performed in the ancient theater of Epidavros and in Crete.

Now the performance of the "Zorba" director comes to Brussels!!! Brussels will be followed by Los Angeles and New York. At the piano is Alkis Kollias, also responsible for the music direction. Costume and stage designs are by Yannis Metzikof. Lighting designs are by Eleftheria Deko, recently awarded with the EMMY award for her work for the opening and closing ceremonies of the Athens Olympic Games. Yolanda Markopoulou is the director's assistant. The performance is a co-production of the Athens Concert Hall, the Greek Festival and Alekton.



Markus Stockhausen will perform

## Cool Jazz Notes

FRANKFURT – October 7-9

The annual Frankfurt Jazz Festival comes to life under the circus tent at the Hessischer Rundfunk Broadcast Studio and offers audiences amazing performances from leading jazz artists.

This year's highlights include Marc Ribot and Henry Grimes, Steven Bernstein's Sex Mob featuring John Medeski, the hr Big Band with Markus Stockhausen performing their take on Don Ellis, and Wollie Kaiser giving an

intriguing jazz treatment to rock old-timers Rolling Stones in Blowin' Up Stones.

To push the boundaries even further, the piano trio The Bad Plus nonchalantly interpret songs by bands such as Black Sabbath, Nirvana and Blondie, according to the organisers.

This year's jazz festival is a meeting of the broadcast industry in cooperation with the department for culture and support of the city of Frankfurt/Main.

## It's All About Poetry

MANCHESTER – October 3-10

This year's Manchester Poetry Festival, held at venues across the city centre, takes off on National Poetry Day. According to organisers, leading personalities will take part in the event that provides a platform for aspiring poets, with a number of open mic happenings and competitions. Poetry lovers can also listen to experts at work, with several readings and performances.



Edouard Manet, *Le Fifer* (1866), Paris, musée d'Orsay

## Impressionists and Masterpieces

VIENNA – Until Jan. 30

Leopold Museum brings to art lovers a stunning exhibition on Impressionism and the masterpieces. In cooperation with the Musée d'Orsay in Paris, works by Monet, Manet, Van Gogh and Gauguin, among others, will be on display. Representing the effect of light, atmosphere and movement, the Impressionists created emotional and vibrant paintings. The organisers say that a highlight of the exhibition is a focus on how "plein air" painting developed to become early Modernism, creating a link with the museum's contemporary collection.

## Festival of Francophony

LIMOGES – Until October 9

The 22nd edition of the International Festival of Francophony offers literature, theatre, dance, film and music lovers a wide range of goodies, which are all in French. This event, spread over a variety of venues in the French town, is a festival specifically devoted to the beauties and intricacies of the French language.

The festival consists of theatrical productions, literary workshops, round table discussions, poetry workshops and music, according to the organisers. For French speakers, an interesting cultural experience in an ancient town, made famous by its porcelain.

abc@new-europe.info

## The Magic Flute

LONDON – October 6, 8, 12, 14, 17, 21

The English National Opera (ENO) launches the revived production of *The Magic Flute*, and according to the organisers, it is one of the company's most successful shows.

Seen as a Masonic allegory, or a comedy of cosmic proportions, Schikaneder's tale relates the trials of the young Prince Tamino as he tries to

win the hand of the beautiful Pamina, whose mother, the fearsome Queen of the Night, guards her jealously. Tamino falls in with Papagano, the bird catcher, who is also on the lookout for a girlfriend!

The cast includes: Toby Spence or Andrew Kennedy as Tamino, Janice Watson or Sarah-Jane Davis as Pamina and Andrew Shore or William Dazeley (ENO debut) as Papagano.



A scene from "I Am a Sex Addict"

## Films Galore in Poland

WARSAW – October 7-16

The annual Warsaw International Film Festival takes off this week offering movie lovers a huge range of productions. Each year, according to the organisers, 130 domestic and foreign films are screened at cinemas across the Polish capital. Sections include the New Film Directors International Competition (first and second features), Europa, German Panorama and Documentary

Features.

One of the films to be screened at this year's festival is "I Am a Sex Addict," which is an unabashedly autobiographical comedy by Caveh Zahedi. The film manages the hard task of being both genuinely funny and utterly sincere. Through the use of re-enactments, documentary footage and cameras, Zahedi tells his life story about his struggle with sex addiction.



The three-member band Stereophonics

## Stereophonics Sing in Spain

BARCELONA – October 10

Stereophonics, one of the world's biggest bands, play at Sala Apolo in support of their latest album, Language. Sex. Violence. Other? This Welsh band has move forward strongly despite earlier criticisms that it wouldn't make the cut. The spotlight hit Stereophonics in 1997 with their release of Word Gets Around.

## Otherwise Engaged

OXFORD – October 3-8

Simon Gray revives his 1975 play *Otherwise Engaged* at the Oxford Playhouse. The production stars Richard E. Grant, whom many people remember as starring in *The Scarlet Pimpernel*. Publisher Simon Hench is witty, urbane, sophisticated, selfish and accustomed to keeping himself at a graceful distance from the messy distractions of his family and friends. As he settles in for a quiet Saturday night with his new recording of Wagner's *Parsifal*, he is besieged by a steady stream of unwelcome visitors, and his usually cool demeanour begins to buckle as life finally catches up with him. Audiences will love it!

# THE EUROPEAN WEEKLY

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## ■ ARMENIA

Russia's state-run power monopoly, Unified Energy Systems (UES), has gained the right to formally purchase Armenia's electricity grid, giving Russia total control over the Armenian energy sector, it was reported recently. p.46

## ■ BALKANS

A week before the European Union is to discuss Zagreb's bid to join the Union, Croatian Prime Minister Ivo Sanader voiced optimism last Monday that his country's efforts to hunt down a key war crimes fugitive would be "adequately evaluated in time." p. 44

## ■ BALTICS

Latvian firm Rigas Piensaimnieks has opened one of the most modern dairy industry logistics centres in the Baltic region as part of a major investment project to increase contracts with European retailers. p. 35

## ■ BULGARIA

Bulgaria's new Culture Minister, Stefan Danailov, has sent a letter to the country's Prime Minister, Sergey Stanishev calling for a review or halt of the deal for the sale of the state film centre Boyana Film to the US-based group Nu Image. p. 41

## ■ CZECH REPUBLIC

Czech firms are most welcome to help reconstruct and revamp the railroad network in Bulgaria, damaged by floods earlier this year, Bulgarian President Georgi Parvanov told reporters last Monday. p. 33

## ■ CYPRUS

The International Expert Panel (IEP) last week announced the official publication of its study "A principled basis for a just and lasting Cyprus settlement in the light of international and European law." p. 30

## ■ DENMARK

Novo Nordisk AS said Friday before last it is suing Sanofi-Aventis SA in a US court for infringing patents for its insulin delivery pen. Denmark's Novo Nordisk claims that Sanofi-Aventis "willfully and deliberately" infringed Novo Nordisk patents. p. 26

## ■ FINLAND

The Finland-based steelmaker Outokumpu Oyj last week announced plans of moving new orders from the United Kingdom to Finland - with a possible loss of jobs in Britain - while downsizing its third quarter outlook. p. 25

## ■ FRANCE

The judge investigating the fatal crash of an Air France Concorde has opened a manslaughter case against the former head of the Concorde programme. p. 17

## ■ HUNGARY

Hungary last Tuesday signed an agreement with the US ambassador to destroy its stockpile of old shoulder-fired missiles to prevent them falling into the hands of terrorists, Deutsche Presse-Agentur (dpa) reported. p. 32

## ■ ICELAND

SIF Ltd has completed the sale of its shareholding in Iceland Seafood International Ltd, Iceland Review reported last week. With the sale, SIF also finalised the sale of its shares in Tros, the Sandgerdi-based company specialising in fresh seafood exports. p. 23

## BSECC education ministers discuss cooperation guidelines

Black Sea Economic Cooperation Council (BSECC) ministers discussed in Athens on September 28-29 basic guidelines for cooperation of all the group countries in the field of science and education. Science topics included ecology, clean water, seismology, as well as sociological and economic prognosis for the development of the BSECC countries. In the field of education, the ministers discussed cooperation activities between the universities, fine-tuning of research plans, student exchange and recognition of university decrees, Ukrainian Education and Science Minister Stanislav Nikolayenko said last Thursday.

BSECC comprises of Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Serbia-Montenegro, Turkey and Ukraine.

Regarding Ukraine, the reforms that have swept the country



General view of the start of conference of the Black Sea Economic Cooperation Council (BSECC), Athens, September 29, 2005

since the Orange Revolution will also help improve the former Soviet republic's educational system, Nikolayenko told New Europe. "The Education Ministry of Uk-

raine has been incorporated recently in the general reform of the education system and this will be examined by the president and the government as soon as possible," he

told New Europe at the sidelines of the BSECC meeting at a prominent Athens hotel.

"We are changing the social and economic relationships within education. First of all, we put the teacher, the professor at the centre of the educational system with a good salary so that there is a motive for educating all of Ukrainians," Nikolayenko said, adding that the average salary in education was increased by 57 percent this year. Other changes include the improvement of pre-school education, increasing the course of school education to 12 years and changing university education based on the Bologna declaration agreement.

Nikolayenko said that BSECC has helped resolve the conflict in Moldova and facilitated dialogue over disputes between Armenia and Azerbaijan; Greece and Turkey; and Ukraine and Romania. p. 37

## DaimlerChrysler mulls job cuts at Mercedes

German-US auto group DaimlerChrysler was on the verge last Wednesday of axing more than a tenth of its workforce at the six German plants that make luxury Mercedes-Benz cars, Deutsche Presse-Agentur (dpa) reported. A day after ailing Volkswagen announced a blow to labour power with a low-pay contract at one of its German production lines, Mercedes staff sullenly awaited the latest bad news in their company's struggle to revive the marque's fortunes. One year ago, Mercedes won minor pay cuts by promising no lay-offs among the 77,000 staff before 2012. But that promise does not preclude severance pay or pensions for those who go voluntarily. A few months ago, 5,000 were expected to go. But news reports last Wednesday said the tally was likely to exceed 8,000. p. 18

## Britain deals with record weak growth rate

Britain's economic growth rate in the three months to the end of June was the weakest in 12 years, the Office of National Statistics (ONS) said in London last Wednesday, throwing into doubt Chancellor Gordon Brown's growth targets and spending plans. Gross domestic product (GDP) was up just 1.5 percent in the three months to the end of June compared with the same quarter last year, according to revised figures published by the ONS. It was the weakest annual expansion since the first three months of 1993 and much lower than the anticipated 1.8 percent rise. The figures landed as the Confederation of British Industry's distributive trades survey for September showed that half of all retailers had suffered falling sales over the month, the highest number in more than 20 years. p. 22

## ■ IRELAND

Ireland and Great Britain recently submitted a joint tender for the purchase of vaccines to tackle a potential flu outbreak this winter, Ireland Online reported. p. 23

## ■ KAZAKHSTAN

Sokolov-Sarbai Mining Production Association (SSGPO), Kazakhstan's biggest iron ore producer, reduced pellet exports 21 percent. p. 47

## ■ KYRGYZSTAN

Russian Defence Minister Sergei Ivanov said in Bishkek recently that Moscow would provide Kyrgyzstan with several million dollars in military aid. p. 47

## ■ NORWAY

Norway's second largest energy company Norsk Hydro will acquire the Houston-based Spinnaker Exploration for 2.56 billion Euro, Norway Post reported last week. Norsk Hydro is expected to pay will pay 65.50 Euro per share of Spinnaker in an all-cash deal and assumes 110 million Euro in debt. p. 23

## ■ PORTUGAL

The decision by a court to uphold the European Commission's veto of the proposed purchase by Energias de Portugal SA (EdP) of 51 percent of Gas de Portugal is positive, it was reported recently. p. 28

## ■ ROMANIA

Revenues from dividends, gains from the capital market, as well as from interests of deposits established after January 1, 2006 will be taxed 16 percent starting next year, according to Romania's bill for amending the fiscal code. p. 42

## ■ RUSSIA

Russia's state Duma has passed the 2006 draft federal budget on the first reading. The document was passed by a vote of 331 to 95, with one abstention, RBC reported last Thursday. p. 39

## ■ SLOVENIA

Exports of Austrian food companies to Slovenia increased in the first two quarters of 2005 by 33 percent year-on-year, while imports of Slovenian food items soared by 149 percent. p. 34

## ■ SPAIN

Spain is trying to expand Spanish business in the United States and enhance the Iberian country's image before the American public in an effort to boost relations between the two countries, it was reported last week. p. 27

## ■ SWEDEN

One of Sweden's biggest fashion companies, Lindex AB, reported its return to the black in the fourth quarter of its last fiscal year. p. 24

## ■ SWITZERLAND

Health insurance premiums will increase next year by 5.6 percent, mainly due to significantly higher costs in the hospital sector. p. 36

## ■ UZBEKISTAN

Uzbekistan is pressing for the termination of a product-sharing agreement with British UzPEC Ltd and intends to do it through "civilised" methods, Ravshan Mamadaliyev, head of the information-analytical department on the fuel and energy complex in the Uzbek government told Interfax on September 22. p. 46

## BoI revokes OK of Popolare bid

The Bank of Italy announced late last Wednesday it was revoking its approval of Banca Popolare Italiana Scarl's bid for Banca Antonveneta SpA, AP reported. This move was the the latest development in a scandal that stained the central bank's reputation and led to the protest resignation of Italy's economy minister. The revocation means prosecutors can unfreeze Popolare's 29.5 percent stake in Antonveneta and permits Popolare to sell the stake to Dutch bank ABN Amro Holding NV for 26.5 Euro (USD 31.90) per share as agreed. Prosecutors had frozen Popolare's stake after finding evidence of the bank's supposed inappropriate behavior during its takeover attempt as it tried to scuttle ABN Amro's parallel takeover bid, which failed in July. The central bank said in a statement it had "begun procedures" to revoke its approval, and said that "procedures are being enacted to evaluate possible sanctions."

## Berlusconi acquitted of charges

Judges in Milan last Monday acquitted Italian Prime Minister Silvio Berlusconi of false accounting charges after acknowledging that the alleged crime was no longer an indictable offence in Italy. The charges stem from allegations that Berlusconi, a media mogul turned politician, fiddled the books of his Fininvest company to hide bribes paid to political parties via offshore accounts. The accusations date back to 1989 and the early 1990s, when Berlusconi was still only a businessman. In reading out the sentence, judges said Berlusconi and three other former Fininvest managers should be acquitted because "the deed is no longer considered a crime by law." The verdict took into account a controversial law approved by the Berlusconi government in 2002 and which makes it more difficult to slap penalties on people accused of publishing false accounts. Specifically, it reduces penalties for offenders while defendants cannot be indicted if they are not brought to court by a victim seeking damages.

## 15,000 orders for Grande Punto

The orders for Italian carmaker Fiat's new Fiat Grande Punto model reached 15,000 during the initiative Open Doors (Porte aperte), Ansamed reported on September 27. The Open Doors initiative involved 700 Fiat dealers in Italy and was visited by more than one million people. Over 100,000 test drives of 2,000 Grande Punto cars were made during the two weeks of Fiat's initiative called Open Week. The public liked the exterior and the interior design of the new model, Fiat said in a statement. The Turin-based car maker has made 19 versions of Grande Punto, with a price starting from 11,111 Euro (USD 13,226).

## Q2 construction output up 2.3%

Italy's construction sector output rose 2.3 percent year-on-year in the second quarter of 2005, Ansamed reported last Tuesday, citing figures released by the Italian national statistical institute Istat. Production in the construction sector over the same period grew 3.3 percent quarter-on-quarters, Istat said. Adjusted to the number of workdays, production in Italy's construction sector climbed 2.3 percent year-on-year in the second quarter of 2005. Over the first six months, the construction sector output index, adjusted to the number of workdays, increased 0.6 percent.

## Algerians target Italian fairs

Numerous delegations of Algerian traders will visit Italy in the coming months to take part in economic events in different sectors as part of a programme of initiatives promoted by the Italian Foreign Trade Institute (ICE), Ansamed reported on September 26. Italy will participate in the third edition of the International Public Works Fair in December in Algiers. About 30 Algerian traders will visit Bologna between October 12 and 16 on the occasion of the International Fair for Company Industrialisation. Algeria will participate in Tanning Tech, the international fair for leather processing machinery and technologies, which will take place in Bologna between October 25 and 28.

## Banca Intesa to buy Bosnian bank

Italian banking group Banca Intesa signed an agreement to buy Bosnian bank UPI Banka for 46.2 million Euro, Ansamed reported last Monday. The operation will be finalised by the beginning of the first quarter of 2006, after receipt of the necessary authorisations and the launch of a takeover bid by Intesa. Banca Intesa will initially acquire 35.03 percent of UPI Banka's shares, while the EBRD will keep its stake of 19.98 percent. Intesa will launch later on the takeover bid on 100 percent of UPI's shares. If the bid fails to exceed 50 percent of the capital, EBRD will sell the necessary shares in order for Intesa to control the majority of the capital.

# Parmalat trial opens

## Several judicial proceedings brought against scandal-hit dairy group

**A**ngry investors gathered at a Milan courthouse last Wednesday for the start of a fraud trial into Italian dairy giant Parmalat, Deutsche Presse-Agentur (dpa) reported. Company founder Calisto Tanzi and 15 others face charges of market rigging. The trial is one of several judicial proceedings brought against the scandal-hit company.

The defendants, which include former managers, lawyers and accountants, are accused of misleading investors and providing false information to Italy's stock market regulator on the true state of the company's finances.

A household name in Italy, Parmalat employed 36,000 people worldwide until its collapse in December 2003.

The dairy giant folded with debts totalling 14 billion Euro



*Parmalat founder Calisto Tanzi arrives for the tribunal in Milan, September 28, 2005*

(USD 17 billion) shortly after admitting that a four billion Euro account held by one of its subsidiaries in the Cayman Islands did not exist. The bankruptcy stripped of their savings

tens of thousands of people who had invested in Parmalat bonds and shares. "They should be ashamed of themselves, taking advantage of us poor people," a middle-aged woman told Italian television. Tanzi, Parmalat's CEO at the time of the scandal, made a late appearance in court and vowed to attend future hearings. His lawyers have said their client will blame the banks for the cover up and argue that he was too high up to have direct responsibility in the scandal. Investors, many of them pensioners and medium-income earners, say they had not been adequately informed about the risks involved when buying Parmalat bonds from their banks. In June, 11 defendants, including former finance chief Fausto Tonna and Tanzi's son Stefano, received reduced prison sentences after agreeing

to plea-bargain with prosecutors over their role in the affair. Tanzi faces charges of false accounting and fraudulent bankruptcy in a separate trial due to take place in the company's hometown of Parma at a later date.

Last Wednesday's hearing was devoted to procedural matters and was adjourned to December 2. The trial is expected to last months, if not years. The Parmalat scandal sent shockwaves around the financial world, affecting well-known audit firms such as Deloitte & Touche and Grant Thornton and international lenders like Bank of America and Deutsche Bank. The company is currently being run by a state-appointed turn around specialist, Enrico Bondi, and has announced plans to relist on the Italian Stock Exchange.

## Football federation calls for cheaper match tickets

The Italian football federation (FIGC) believes that costly tickets and increased television coverage are the main reasons behind the falling number of fans in Italian stadiums, it was reported last week. Il Corriere della Sera last Wednesday quoted FIGC President Franco Carraro as saying that "high prices

don't encourage people to go to the stadium. The clubs should lower the prices; they have no excuses." Carraro, who spoke during a meeting FIGC held in Rome with experts from the English Football Association (FA), added that professional clubs get most of their income from lucrative contracts with

the three television channels - La7, Mediaset and Sky TV - broadcasting their games.

Ticket prices for Serie A games start at about 15 Euro, while season tickets cost a about 200 Euro for 19 home games, with the notable exception of title holders Juventus, who have sold 6,000 season tickets to

women and fans under 13 at 1 Euro per game.

The average number of supporters per game this season is estimated at 21,000 per game, down from almost 25,000 last season which marked the lowest point in a decade - the average peaked at 31,000 in the 1997-1998 season.

## Fiera Milano posts 2.1 mln Euro net profit

Italy's trade fair organiser Fiera Milano SpA closed the fiscal year 2004-2005, period ended June 30, 2005, with a net profit of 2.1 million Euro (USD 2.5 million) compared to a 12 million Euro profit in the previous fiscal year, Ansamed reported on September 27.

Pre-tax profit totalled 13.2 million Euro for the 2004/2005 fiscal year and revenue amounted to 261.7 million Euro down from 291.6 million Euro a year earlier, the report said.

At shareholders' meetings on October 28-29, 2005, the board of directors of the company will propose a 0.3 Euro dividend per share for the 2004-2005 fiscal year.

For fiscal year 2005-2006, period ending June 30, 2006, Fiera Milano expects satisfactory results due to the opening of its new venue Rho-Pero, CEO Piergiacomo Ferrari was quoted as saying in a statement.

The capacity of the new centre is expected to have a significant effect on the company's revenue and earnings before interest, tax, depreciation and amortisation (EBITDA), Ferrari added.



*Unidentified girls work in a vineyard of Chardonnay grapes at Montalcino, near Siena, Italy*

## Winemakers predict "good" vintage

Italy's winemakers were braced for a "good" 2005 vintage in terms of both quantity and quality, the country's main oenologist association said last Wednesday. According to data provided by Assoenologi, production is expected to total around 51 million hectolitres, down 4 percent from last year's total of 53.3 million. Quality is expected to be much better than in 2002 or in 2003 and in line with 2004 - varying from "good" to "very good" depending on which of Italy's 14 main wine producing regions are considered. "This should be a good year, in spite of the abundant rain that fell in September," an Assoenologi spokesperson told

Deutsche Presse-Agentur (dpa).

"This year's vintage will be good both in terms of quality and quantity. Not excellent, but good," said Donato Lanati, one of Italy's most illustrious wine-makers. Fine vintages are expected in the Barolo and Barbera producing region of Piedmont, in central Lazio and in southern Italy, including Sicily, where production is estimated to be up 10 percent on 2004.

Tuscany, where world-famous Brunellos and Chiantis come from, has suffered from unfavourable weather this year and could see production drop by about 10 percent. Italy produces 17 percent of the world's wine.

# Court investigates former Concorde head in fatal crash

The judge investigating the fatal crash of an Air France Concorde has opened a manslaughter case against the former head of the Concorde programme, Deutsche Presse-Agentur (dpa) reported last week, quoting the judicial officials. Henri Perrier, who directed the programme from 1978 to 1994, will be facing the long-term trial, allegedly suspected of having been informed of flaws in the supersonic plane that contributed to the July 25, 2000, crash near Paris which killed all 109 people on board and four on the ground.

The judge, Christophe Regnard, reportedly informed Perrier that he was being placed under investigation for manslaughter after he was already interrogated by investigators for more than 11 hours. Official investigations concluded that the crash occurred after the Concorde rolled over a titanium strip that had fallen onto its runway minutes earlier from a Continental Airlines DC-10.

The strip caused a tyre on the Concorde to burst, propelling rubber fragments into one of the plane's fuel tanks and provoking a fire. The Concorde



Experts examine on July 31, 2000 the sealed off site of the Air France Concorde crash of July 25 which killed 113 people, in Gonesse on the outskirts of Paris

crashed less than two minutes after taking off from Charles de Gaulle Airport some 35 kilometres north of the French capital.

While Continental has also been placed under investigation in the crash for manslaughter, a judicial investigation made public in 2004 found that the Con-

corde's fuel tanks were not sufficiently protected against some forms of shock, a design flaw apparently known since 1979.

Perrier is the first of four former executives of the former plane manufacturer Aerospatiale, which is now part of the European aerospace conglomerate EADS, to be investigated in the case.

A recent report by aviation experts showed that decisions taken by Aerospatiale to deal with the design flaw did not conform to aeronautic regulations, particularly in terms of safety.

## Terrorists reportedly targeted Paris metro, airport

Latest findings show threats from Islamic terrorists are looming over the French capital and the slightest reluctance in vigilance can result in similar experience as of London. Last week the French police netted nine suspected members of Islamic terrorist cell, who, according to the officials, were scheming attacks on the Paris metro or one of the capital's two major airports, the daily Le Figaro reported, cited by Deutsche Presse-Agentur (dpa). Several weeks ago, French investigators learned that the head of the cell, Safe Burada, and several members of the group had vowed allegiance to the international

"jihad" or holy war and established contacts with Osama bin Laden's al-Qaeda network, according to the newspaper.

Several members of the cell were also found to be adept in the use of explosives and were planning attacks on the metro, a Paris airport or the Paris headquarters of DST, the French counterintelligence service.

Dpa quoted an unnamed source close to the investigation as saying that the information came from Algerian investigators and was corroborated by wiretapped telephone conversations. However another investigator, who declined to be named, reportedly added that no document or any other infor-

mation hitherto came to light to suggest that the cell was actively preparing an attack or had selected a specific target. The seven men and two women were taken into custody early last Monday in police raids in the city of Evreux and the town of Trappes, west of Paris. Burada spent more than seven years in detention for his part in a series of bloody bombings in France in 1995, including an attack on a much-used Paris metro station that killed eight people and injured 250. He was released in 2003 and immediately put under surveillance.

French investigators also recently discovered ties between Burada's cell and the

Algerian terrorist group the Salafist Group for Preaching and Combat (GSPC). Late last Monday, the French Interior Minister, Nicolas Sarkozy, told France 3 television that the terrorist threat against France "was very high" and announced details of an anti-terrorist law he was proposing to fight the danger. The proposals include having mobile phone operators to maintain and make available records of phone conversations, keeping track of repeated voyages abroad to countries such as Afghanistan and Iraq, asking internet cafes to keep records of their clients and increasing the use of video surveillance in public places.

## Air France orders 3 more A318s

Air France recently placed a firm order for three A318 single-aisle aircraft, strategy.com reported last week quoting an official release. Deliveries of these aircrafts, powered by CFM International CFM56 engines and with an accommodation capacity to seat up to 123 passengers in a single-class layout which will be operated to medium-haul destinations in metropolitan France and

Europe, would begin in 2006.

Air France was the A318 launch airline in April 1999 when it placed an order for 15 of the smallest single-aisle airliners of the Airbus family. With this additional order, the French carrier would be completing its fleet modernisation and rationalisation programme.

Air France was the first airline in the world to operate the four types of aircraft in the sin-

gle-aisle family, and already has a fleet of almost 170 Airbus aircraft. "We have been successfully operating the A318s for several years now."

These single-aisle airliners have fully demonstrated their commercial and operational capability both within the A320 family and on our medium-haul network with great efficiency and flexibility," said Jean-Cyril Spinetta, CEO of Air France. "I

am convinced of the exceptional efficiency of our aircraft and that their operational reliability will contribute still further to reinforcing Air France's position in Europe and throughout the world," declared Gustav Humbert, president and CEO of Airbus. The A318, and all the members of this family, are based on the same A320 basic model and cover the 100- to 200-seater market segment.

## Government offers cash incentives for more babies

France, once one of Europe's most fecund nations, has seen the writing on the wall and begun to offer parents financial incentives to encourage more childbirth, it was reported last week. At a replacement rate of 1.9 babies per woman – still below the 2.1 rate necessary to simply maintain a population – France is one of the better off European nations, second only to Ireland in fertility rate. The French recently introduced incentives to try to counter the fiscal disaster the birth decline will eventually cause by offering financial incentives to couples to have a third child, such as increasing monthly welfare payments for parents who take unpaid leave from work to care for a third child. According to experts, with abortion rates exceeding births in much of eastern Europe, and dismally low replacement rates in many other nations, the prospects for the future of social security in Europe are dismal. The EU average birth rate is 1.5 children per woman, with several at less than 1.3 – Greece, Spain, Germany and Italy, as well as most of Eastern Europe, according to official data.

## France bases 2006 budget on 2.25% growth

French Finance Minister Thierry Breton last week commented during a press meet that the country's budget for 2006 is based on an economic growth of 2.25 percent and a public deficit of 2.9 percent, according to report in the French newspaper Le Monde published last Wednesday. Official estimates suggest the ratio of overall debt to GDP would rise to 66.0 percent in 2006 from 65.8 percent this year, the fourth consecutive year that France's debt-to-GDP ratio stands above the 60 percent level set in the European stability and growth pact for the Euro area. The budget forecasts were based on assumed GDP growth of 2.0-2.5 percent next year, up from the forecast of 1.5-2.0 percent growth in 2005, and reflecting an economic upturn that began to take shape this summer, the minister noted. "Despite the increased tensions on the oil market, the global industrial cycle is beginning a new phase of growth," said the minister. Breton also reportedly noted the probable difficulties in reaching the goal, especially given extra costs arising from the rise of the price of oil, which the government estimates at about USD 60 a barrel in 2006.

## EU clears LBO France buy of Wheelabrator Alleward

The European Commission last week formally cleared LBO France's acquisition of French abrasives and diamond tools producer Wheelabrator Alleward SA. LBO France is a French investment company, which manages a number of investment funds that are involved in small-cap or mid-cap acquisitions. It focuses on leveraged buy-outs and has interests in a broad range of businesses in different sectors. Wheelabrator Alleward has operations in the EU, North and South America, South Africa and Asia. The commission said that the companies are not active in the same markets, so the acquisition would not lead to any increase in market shares. The vertical integration between Wheelabrator Alleward's activities and the activities of one of LBO France's portfolio companies, Rocamat, active in quarrying and stonecutting, "is insignificant and does not impede effective competition," the Commission added.

## Endemol set to float away from France

Big Brother production giant Endemol's long-planned flotation would be going ahead before the end of the year – but without Endemol France, it was reported last week. The news immediately sparked speculation that the French division could undergo a management buyout. Endemol's Spanish parent Telefonica reportedly reached a final decision last week to float up to 35 percent of its production and content arm in Amsterdam instead of London, as a way of valuing the division. Merrill Lynch would be leading the initial public offering. Telefonica bought Endemol at the height of the dotcom boom, when Telefonica saw Endemol's international production network and IP as crucial to its broadband TV dream. A change of management and strategy at Telefonica has since left Endemol as non-core, and the Spaniards confirmed long-speculated IPO plans earlier this year. However, Endemol France – one of the biggest contributors to Endemol's bottom line due to lucrative output deals with the main terrestrials – was not expected to be part of the IPO and was thought to be likely for a management buyout.

## BASF and Sinopec plan expansion of China JV

As they opened a USD 2.9 billion chemical plant in eastern China, the world's largest chemical company, BASF of Germany, and China's Sinopec announced last Wednesday that they were already planning an expansion of their joint venture. "The fact is, we will enlarge Nanjing," BASF Chairman Juergen Hambrecht announced as he and Sinopec President Wang Tianpu officially opened their plant in the city, Deutsche Presse-Agentur (dpa) reported. The two companies are negotiating an increase in the plant's capacity and the construction of additional production facilities that would result in an investment of USD 120 million to 360 million, officials at the ceremony said. The talks, however, could not be completed in time for the plant dedication, they said. The current plant, which took four years to build and is the largest single investment in the Ludwigshafen-based BASF's 140-year history, has the capacity to produce 1.7 million tonnes per year of high-quality chemicals and synthetics for China, the world's fastest growing economy. Among the topics at the enlargement talks is a 25-percent expansion in the capacity of the plant's steam cracker, a furnace used to split gas molecules into their chemical components, officials said. "BASF and Sinopec will invest in additional affiliated facilities and an expansion of the steam cracker in the joint venture in Nanjing," said Andreas Kreimeyer, the BASF board member responsible for the Asia-Pacific region. Wang said the current cooperation between his company and BASF provided a solid foundation for an expansion. The plant, in operation since June, will bring BASF closer to its goal of raising its sales in China to 10 percent of its global total by 2010. Today, 5 percent of its sales are in China, Hong Kong and Taiwan. "China is a land of change," Kreimeyer said. "It is making huge strides in the direction of its future as a modern, industrialised country."

## German scientists in US to come home if conditions improve

A group of German scientists working in US have sent an open letter to German education authorities saying that they would return to their homeland - but only working conditions improve there, a report coming out last Thursday said. The letter, titled "The Future of Science" and signed by more than 100 German scientists in the United States, said the weekly Die Zeit newspaper. Its initiator was the German Scholars Organisation (GSO), an association of German scientists in North America. Eicke Weber, the GSO head and a professor of material sciences at the University of California-Berkeley estimated that 80 percent of young German scientists in the US would prefer to teach and do research in their homeland, the report said. The number of German scientists potentially involved is not small: the report says about 6,000 young Germans are working at American universities and other institutes. The scientists say in their letter that professors in Germany should be chosen in transparent procedures and by commissions that include non-Germans. Bodies now granting professorships "don't always select the best candidate from a scientific point of view," says the letter. The scientists also criticise the right of each of Germany's 16 federal states to set education policy, which had "led to confusing and unequal working conditions for scientists." They call for German universities to be given more autonomy from the state and governed by a single set of laws.

## Cartel Office to declare gas wholesale deals void

The German Cartel Office said last Tuesday it would declare 15 gas wholesalers' contracts void in a bid to shake up Germany's high-priced energy market and usher in more competition. The companies mainly receive gas via pipeline from Russia and sell it to municipal gasworks which supply it to heat homes and offices. Ulf Boege, president of the Federal Cartel Office, said in Bonn he would use his legal powers to prohibit existing long-term supply contracts. The contracts bind municipalities to a single supplier for up to 25 years. He said the office had tried to reach a negotiated solution with the companies but there had been a stalemate with the biggest wholesaler, E.ON Ruhrgas, which is a unit of the giant E.ON corporation. Boege said the aim was to make it easier for municipal gas companies to shop around for better prices and change supplier. "The only way to do this is to smash the long-term supply contracts," he said. He said the time for negotiation was finished. Officials would begin drafting an order to serve on Ruhrgas with immediate effect. He expected Ruhrgas to challenge this in the courts.

# DaimlerChrysler briefs staff on massive job cuts

DaimlerChrysler told workers last Thursday at its German Mercedes car assembly plants in Stuttgart and Bremen to stand by for massive job cuts in the next few months, with one fifth of the Bremen workers made redundant, Deutsche Presse-Agentur (dpa) reported.

The German-US automotive company said last Wednesday it had set aside 950 million Euro in severance or retirement pay to shed 8,500 employees. The sum averages 110,000 Euro for each, but could approach 250,000 Euro for long-serving engineers.

The main car assembly plant in the Stuttgart suburb of Sindelfingen is to lose 3,100 of its 31,100 staff, while that in Bremen will lose 2,700 of 13,400 existing staff. The rest of the cuts will be at axle and engine plant and in the sales organisation.

Eyewitnesses said Mercedes Car Group staff appeared calm as the designated new chief executive of DaimlerChrysler, Dieter Zetsche, 53, told a works meeting at Sindelfingen why the cuts were needed.

He said the cost of the 93,000-strong German workforce at Mercedes Car Group, which includes the factories, the sales chain and the micro-car manufacturer Smart, was far above that at competitors.

Though Zetsche is not set



Staff of car manufacturer DaimlerChrysler are leaving the factory premises during the change of shift in Sindelfingen, Germany, September 28, 2005

to take charge till January 1, he has visibly taken charge already from outgoing CEO Juergen Schrempp, 60, who promised last year there would be no sackings for eight years.

Financial analysts said that promise had been a mistake by Schrempp that was now costing DaimlerChrysler dearly, since staff had to be bought out of jobs with money and could not be forced to go.

"It's hard to understand why the cuts were not included

in the package back then," said analyst Michael Raab at Sal. Oppenheim. Juergen Pieper of Bankhaus Metzler agreed: "They've made some misjudgements in the past, probably in the belief that things were bound to get better."

Porsche, where humming sales have kept jobs safe and pay generous, meanwhile shored up its minority stake in volume producer Volkswagen.

Without saying where it had bought the shares, the

Stuttgart-based maker of sports utility vehicles and sports cars said it had obtained 10.26 percent of Volkswagen voting stock. Its target, of 20 percent of Volkswagen, is expected to cost three billion Euro.

Porsche chief executive Wendelin Wiedeking has described the acquisition as strategic, since the two companies jointly make their big SUV and Porsche does not want Volkswagen to be taken over by non-German interests.

## Fuel price concerns cut consumer sentiment index

The authoritative GfK index of German consumer sentiment sank 0.2 of a point to 3.1 last Wednesday as shoppers fretted at the high price of auto fuel and the uncertainties created by an election with no clear winner.

GfK, a Nuremberg-based worldwide market-research firm, said many households believed the cost of living was likely to rise and were thus less willing to contemplate big-ticket purchases of items like cars, home-entertainment systems

and whiteware appliances.

Though the rising price of oil had hurt the consumer climate, the GfK survey also found many consumers were looking forward to economic recovery. GfK forecast its index for October would be 3.1, saying its final calculation of the index for September had been 3.3.

GfK chief executive Klaus Wuebbenhorst warned that a drawn-out "stalemate" in Berlin over a new coalition would cause more uncertainty among consumers and weaken domes-

tic demand further.

At the general election on September 18, neither Chancellor Gerhard Schroeder's coalition nor the centre-right achieved a majority. They are now in talks on a fresh coalition combination.

"Voters and consumers want to know who is going to govern Germany and what policy programme they have to adjust to," said Wuebbenhorst. He said the public expected a "coalition of the brave," not one that was based on the lowest

common denominator.

In an interview, he said German consumers were likely to have to spend an additional 6.8 billion Euro this year on energy because of the surge in world crude oil prices. This would be at the expense of other consumer spending, he warned.

"Perceived inflation" was also up sharply as Germans passed the big price displays outside filling stations every day. "That is definitely not something that inspires more consumption," he said.

## Germany and China renew legal dialogue

China and Germany have agreed to renew their dialogue on legal matters for another two years, the German consulate in Shanghai reported last Wednesday.

The agreement, signed by German Justice Minister Brigitte Zypries and her Chinese counterpart Cao Kangtai, will see future cooperation in

civil law such as the registration of real estate and the electronic business.

Previous points of focus had been in criminal and administrative law as well as the modernisation of the penal system. Also to be investigated are the reasons behind the sometimes insufficient application of laws in China's

provinces.

According to German justice officials, trade and economic law will see a new emphasis on the protection of intellectual property and laws on capital markets.

In labour and social law, issues to be dealt with including industrial relations and the legal consequences of accidents

in the work place, with the fight against economic crime and corruption also issues for an exchange of intelligence.

In addition, supporting measures will be dialogue on the training of judges, attorneys and notaries. The final focus of the agreement will have both states intensifying cooperation in higher education.

# Fortis says will not make hostile bid for Dexia

**F**ortis NV chief executive Jean-Paul Votron said Thursday before last that the Belgian-Dutch bancassurance group will not make a hostile bid for rival financial company Dexia SA. Votron added that Dexia's rejection of an opportunity to study merger possibilities was a "surprise" and "regret" to him. "It takes two to tango. My impression is they don't want to talk to us," he was quoted as saying. Votron added that Dexia would have been a good fit into the company's overall growth strategy. "Dexia is great company. It is well known that public finance is 50 percent of their business. But the other 50 percent is also very attractive," he said.

When asked if Dexia was too large an acquisition that was ill-fitting with company strategy, Votron said: "It is not about size, it is about a strategic fit," adding that discussions over commercial and private banking operations were central to this. The CEO said however the Dexia deal was principally international in scope, rather than domestic. "This is not a Belgian plan. This is an international deal. They are present from Asia to North America," he said.

Votron confirmed that Fortis was "on track to meet



Fortis Bank offices in Brussels, Belgium

its stated objective of achieving 30 percent of its net operating profit before capital gains to be sourced outside the Benelux by 2009. "We are going in the right direction," he said. He added the group was fundamentally seeking to grow organically, but would continue to look at acquisitions in order to improve company and shareholder value. "If opportunities occur, we will definitely look at those opportunities."

For its part, Dexia rejected a proposal from rival For-

tis to look into merging the groups, the company said in a statement Thursday before last. Dexia said that following a report in the Belgian media, it was contacted by representatives of Fortis who submitted a proposal to jointly examine a merger project. "The board of directors of Dexia convened to look into Fortis' proposal as well as Dexia's management board's position," Dexia said in a statement. The board unanimously decided not to go ahead with the proposal for a

joint study, considering that this "was not in the interest of Dexia, nor of its shareholders, personnel and customers," it added.

Dexia shareholder Holding Communal denied that it was looking to sell its stake in the group, contrary to earlier press reports. It said the stake remained in its "strategic vision." Reports said that Belgian communes — local municipalities grouped under Holding Communal — are keen to give up their 16.76 percent stake.

## Consumer confidence slips further

Belgian National Bank said Thursday before last its confidence index — which is often seen as a good indicator of sentiment in the Eurozone as a whole — rose to minus 5.6 points in September from minus 10.9 points in August. Consumer confidence has slipped again in Belgium as record oil prices contribute to a lack of trust in the economy and labour market, expatica reported. Consumer confidence is now at its lowest point since October 2003, broadcaster VRT reported Thursday before last. Oil prices have had a negative impact on household budgets and the average household is especially pessimistic about general economic prospects. The reading was well above expectations for a much more marginal improvement to -10.7.

## Colruyt April-Aug sales up 10.3%

Discount supermarket chain Colruyt NV recently announced sales for April to August rose 10.3 percent year-on-year and added that net profit for the financial year 2005/2006 should amount to at least 225 million Euro, up from 210.86 million a year earlier. It said it expects to invest 228 million Euro in its existing operations, including depots, meat processing, wine bottling and coffee roasting. The company said it does not currently anticipate any substantial investments in the Dutch market but that it is undertaking a study to get to know the market better.

## House prices rise 17% in 18 months

The price for an apartment or house in Belgium rose 11 percent last year in comparison with 2003, expatica reported recently. House prices also climbed 6 percent in the first half of this year, real estate agency ERA said. Prices rose primarily due to low interest rates, but also due to the fiscal amnesty, broadcaster VTM reported. The amnesty allowed people to use "black money" lodged in foreign accounts to buy a house in Belgium or to purchase a second residence on the coast or in a foreign country.

## 40,000 Telenet digital subscribers

Less than a month after its launch, Telenet has 40,000 digital television subscribers, 10 times the amount of rival Belgacom, expatica reported Friday before last. Telenet said it explained its approaching stock market debut that will have more than 40,000 subscribers by the time of its listing. Telenet offers 50 channels and 20 radio stations via its digital network. Belgacom recently launched a promotion campaign for its digital television services in a bid to attract more subscribers.

## New Flemish nitrate regulations

Flemish farmers will have to use less manure to fertilise fields following a decision by Flemish Environment Minister Kris Peeters to expand the number of designated "vulnerable" areas by 142,000 hectares, expatica reported Friday before last. The decision was made after the European Court of Justice ruled that Flanders and Wallonia were in breach of EU nitrate regulations. It is not yet known whether the Flemish government's response will ward off renewed legal action.

## CB chief says ECB rates okay

The Belgian National Bank governor said last weekend that the level of European Central Bank interest rates remains appropriate, local media reported. He said ECB rates are no impediment to Eurozone economic growth. "I do not meet any entrepreneur who says that rates are too high to invest," he said in an interview with L'Echo newspaper. "The current level of rates is certainly not a brake on economic activity."

## Unions issue threat over social security reforms

Both unions and employers said Friday before last they were prepared to discuss the Belgian government's social security reforms, but unions have also warned of strike action if their demands are not met, expatica reported.

The three largest unions ABVV, ACV and ACLVB said they were prepared to enter discussions with the government on September 27, but have placed several demands on the negotiating table.

If the demands are not met, the unions have threatened to initiate strike action, newspaper De Standaard reported Friday before last. The unions had to decide Friday before last whether they would enter discussions with the federal government.

All three of the large unions gave assent, but presented several clear demands. The ACV said the government's plans were unsatisfactory, while the Liberal ACLVB

also warned of strikes if demands were not met, newspaper De Tijd reported.

The Socialist ABVV said it will remain firm on its demand that workers be allowed to take early retirement at the age of 58. If the demand was not met, it said a 24-hour strike would be carried out at the start of October.

Employers groups said they were prepared to enter discussions with the government, but said clarification was

needed on several points. They said early retirement needed to be restricted and demanded tax cuts.

The government presented a policy proposal Wednesday before last to unions and employers designed to reform then social security system and keep older workers working.

The document was consciously generic in content to allow discussion, but was nonetheless criticised for being too vague.

## No VAT for oil litres priced above 50 Euro cents

Belgium's federal government has clarified its plans to alleviate the high cost of fuel for Belgian residents after consultations with the energy sector, expatica reported Friday before last.

As of last Saturday, no one needs to pay value-added tax (VAT) or excise taxes on heating oil priced above 50 Euro cents a litre. The tax will be automatically deducted.

However, the 17.35 percent cut in price will also be backdated to June 1, 2005, but the taxes can only be reclaimed from the finance ministry starting from October 1, newspaper De Tijd reported earlier.

From that date, consumers can fill in a form at filling in at tax offices, post offices and online to reclaim the taxes.

In the meantime, Prime Minister Guy Verhofstadt said

after the weekly cabinet meeting a list of fuel suppliers will be distributed to the public.

The list will identify where people can go for an interest-free spread of payments and a uniform price regardless of the amount of fuel purchased.

The proposals will be legislated in October, but in the meantime, the government has reached an agreement with the energy sector guaranteeing the

savings are accessible to the public. It means that everyone will be able to find a fuel supplier who is voluntarily offering both benefits within a radius of 25km of their home.

The government's measures will eventually become compulsory for suppliers.

Skyrocketing fuel prices recently prompted the government to agree on cost-saving measures for households.

## LUXEMBOURG

### Luxembourg most expensive European capital

Luxembourg tops the list of Europe's most expensive capitals, a survey carried out by property group Era Immobilier showed last week. According to the report, housing costs an average 470,000 Euro in Luxembourg. In second place comes Bern, the Swiss capital, with an average sale of 421,000 Euro, followed by Madrid with 408,120 and Dublin with 330,000. London, last year's most expensive capital, fell to fifth place with 328,000 Euro.

## Witches can offset training costs

Dutch witches are allowed to offset their training costs with broomstick and potions against their income taxes, a court in Leeuwarden has ruled in confirmation of an earlier decision by the tax authorities, it was reported last week. A young witch who plies her trade at private events said she had learnt her craft at a school for witches in Appelscha, earning the right to call herself a trained witch. She made clear that she had done this with the aim of receiving more commissions, and the appropriate tax office allowed her to set off the 1,249 Euro that the course cost against her personal income tax. However, the court also confirmed a ruling by the tax office against allowing the young witch further deductions, relating to travelling and overnight costs, as her job description did not comply with the rules for self-employed businesspeople.

## VNU hopes for IMS deal approval

Dutch media giant VNU NV is considering radical measures to win support from institutional shareholders sceptical about its USD 7 billion deal to buy IMS Health Inc, according to a media report last Thursday. Possible moves include selling a big division, increasing stock buybacks and even changing its chief executive officer to help convince big US mutual funds that VNU, the owner of the Nielsen television-ratings service, is positioned to make the most of the acquisition, The Wall Street Journal reported in its online edition.

## Protests derail Randstad surcharge

Dutch Rail has scrapped plans to make travelling by train in the Randstad conurbation more expensive than the rest of the country, expatica reported last Monday. Transport Minister Karla Peijs and consumer groups opposed the idea of charging more for travel within the region that covers Amsterdam, the Hague, Utrecht and Rotterdam. In response, NS has decided to increase the price of tickets nationality by 3.15 percent from January 1, 2006. The increase would have been 2.8 percent if the Randstad surcharge had been allowed. NS said the level is higher because the rate of inflation is higher than anticipated.

## Tele2 may pull out of Versatel bid

Tele2 AB may pull out of its takeover bid for Versatel Telecom International NV if a Dutch court rules against the bid, said Dutch news agency ANP Friday before last. During a court hearing in Amsterdam, lawyers for Tele2 said continuation of the offer would be "very much in doubt" if the court blocks the takeover as a result of its investigation into alleged wrongdoing by Tele2. Versatel shareholders filed a complaint and asked for a judicial investigation into the Tele2 bid on Versatel shares, claiming that Tele2 offered a higher share price to Talpa, a majority shareholder in Versatel.

## Energy price compensation

The Dutch government said it will make a decision on providing financial compensation to consumers who are hit by soaring energy prices in December, Dutch news agency ANP said Thursday before last. A majority in the Dutch parliament had demanded that the government compensate for high energy prices to preserve consumer purchasing power in 2006. Prime Minister Jan Peter Balkenende said that he first wants to know exactly how the energy prices, which are expected to soar due to record oil prices, will pan out.

## SE Brabant can be a top region

Brabant province has the potential to become an important technology centre in Europe if government agencies invest 1.75 billion Euro in the region in the coming years, expatica reported recently, citing a new report. A special committee based in Eindhoven - the home of Philips - said the region must become a rule-free zone to create sufficient "playing room" to entice for new technology companies. The report was presented to Junior Minister Karien Van Gennip of the economics affairs ministry Thursday before last.

## KLM to increase winter capacity

KLM Royal Dutch Airlines NV said Friday before last it will raise capacity by 7 percent during its winter schedule, compared with last year. The winter schedule starts October 30 and ends March 25, it said in a statement. The airline outlined several areas where it and Air France are consolidating services, and added that it will also begin operating business jet services to Houston.

# ABN Amro leads charge into Italian bank market

ABN Amro Holding NV said last Monday it signed a contract with Banca Popolare Italiana and its allies to buy their 39.37 percent stake in Banca Antonveneta SpA at 26.5 Euro per share, for a total outlay of 3.2 billion Euro. In a statement, ABN added that when the purchase is finalised it will hold up to 69.28 percent of Antonveneta and will launch a public takeover bid for all outstanding Antonveneta shares at 26.5 Euro per share.

ABN said that the contract is conditional upon the fulfilment of certain conditions by March 31, 2006. The conditions are receiving all necessary regulatory clearances, the revocation of the seizure of BPI's shares in Antonveneta, and the nullification of BPI's previous takeover bid. ABN Amro's stake in Antonveneta at the moment is 29.91 percent.

Bank analysts have welcomed the victory of Dutch ABN Amro in the battle to

Take over the Italian bank Banca Antonveneta, according to expatica. The Dutch bank will then have close to a 70 percent stake, and spokesman Neil Moorhouse told news agency Associated Press that ABN Amro will launch a bid for all remaining shares at the same price within 30 days after regulatory approval.

Analyst Joost Buchner of F. van Lanschot Bankiers said ABN's management had done well to finalise the takeover after a long-running struggle that involved court battles and allegations of official skulduggery. "Italy is an interesting growth market. It is the most expensive country in which to have a bank account. It is favourable for consumers that a new party has appeared in the market. It is a very big mar-



Antonveneta Bank in Milan, Italy

ket," he said.

David van der Zande of Stroeve agreed that ABN Amro could do well in Italy. "The market is fragmented but the resistance to foreign banks is broken. Therefore I think that there will be more takeovers in the pipeline. I wouldn't rule out more bank takeovers when the Antonveneta deal is concluded." Analyst Lucas Daalder of Oyens & Van Eeghen said ABN's management had done well to complete the deal, but he indicated he is not a supporter of the move.

"The company is now active in several different countries. The component parts have nothing in common. ABN Amro is becoming more of a conglomerate with different units. There is no logical to the relationships. The shareholders will not be happy with this," he said. Most analysts agreed

that ABN paid a lot for Antonveneta, about 10 times the profits achieved by the Italian bank.

Meanwhile, Italy's government stripped Bank of Italy Governor Antonio Fazio of his authority to represent the country at a World Bank meeting last Sunday. The move piles the pressure on him to resign over his alleged role in the bid to torpedo ABN's takeover. The 68-year-old governor has been under mounting pressure to resign since leaked wire taps made public in July fuelled accusations he favoured local Italian bank, Banca Popolare Italiana, in a battle for control of Antonveneta.

Domenico Siniscalco resigned as economy minister week before last after failing to force Fazio out. ABN Amro Holdings NV anticipates "limited" job losses at Banca Antonveneta once the Dutch

bank starts integrating Antonveneta's operations, ABN Amro's Chairman Rijkman Groenink said last Monday.

Speaking during a conference call on the takeover, Groenink denied that he wants to move Antonveneta operations elsewhere, as some Italian media reports had suggested. Groenink reiterated that he wants to expand Antonveneta's business in Italy.

However, in terms of cost synergies, there are likely to be some job losses among top management and Antonveneta's IT infrastructure, Groenink said.

Groenink also stated that for the time being, ABN Amro's main objective is to integrate Antonveneta into its organisation. After that has been done, Groenink said that there 'may be other acquisitions, but on a smaller scale than that of Antonveneta.

## International agency expats "want out of Netherlands"

At least 77 percent of the mainly expat staff of international agencies in the Netherlands want to leave the country, expatica reported Friday before last. And more than half of the Dutch employees think their organisation should relocate to another country, according to a report in newspaper De Volkskrant. The daily paper based its story on a leaked internal survey carried out last summer by the International Organisations Staff Associations (IOSA-NL), which represents staff members of international agencies. These include the International Criminal Court, the UN Tribunal for the Former Yugo-

slavia, the International Court of Justice, the European Patent Office, the European Space Agency and Europol. The majority are based in and around the Hague.

Telephone calls to international agencies Friday before last failed to generate much response to a report.

Some of those contacted by expatica showed interest in reading the article and representatives of two organisations expressed surprise at the claims expat workers were unhappy with life there.

They asked that neither they nor the organisations they work for be named.

The IOSA found 77 percent of the workers for these organisations don't want to stay in the Netherlands. Some 3,400 people took part in the survey, amounting to 60 percent of the workers represented by the IOSA-NL. The reasons for wanting to leave included unhappiness with the health-care waiting lists and unsympathetic doctors; the tax system; dealing with bureaucracy; expensive childcare; and the lack of suitable housing.

The conclusion of the report "Thuis in Holland" (at home in Holland) states: "There is a widespread perception that international organi-

sations and the people who work for them are no longer welcome in the Netherlands." The high population in the Randstad and the growing distrust among Dutch people of foreigners were other factors mentioned, De Volkskrant said. The list of grievances was topped off with complaints about the weather and the difficulties of speaking Dutch.

The local authority in the Hague and government agencies declined to comment about the report as it has not been published.

The IOSA-NL plans to discuss the findings of the survey with the official agencies.

# More rain than sunshine for tourism industry

There was more rain than sunshine for Austria's huge tourism industry in August, according to official figures last Wednesday. The often uncertain weather - including floods in western Austria - caused a 2.4 percent drop in overnight stays. But the total was still 16.7 million, equivalent to more than twice Austria's population of eight million, Deutsche Presse-Agentur (dpa) reported.

The trend to shorter holidays was shown by the fact that at the same time, arrivals of tourists in their resorts only went down by one percent. In the summer season so far, from May to August inclusive, the figures showed a one percent decline in overnight stays compared with May-August 2004, to 44.9 million.

In August, there were fewer overnight stays by Germans, but they still made up by far the greatest proportion of foreign tourists. There were 5.1 percent fewer overnight stays by Germans, 6.4 percent by Dutch, 5.8 by French, and 2.8 by Belgians. On the contrary, 3.5



A bustling Vienna, the capital of Austria

percent more overnight stays by British tourists were registered, as well as a six percent rise in Swiss visitors.

From May to August inclusive, Germans accounted for 40.1 percent of all overnight stays, Austrians holidaying in their own country for 29.7 per-

cent, Dutch for 6.7, and Italians for 3.7. British, Belgians, French and US citizens had shares of between 1.5 percent and 2.5 percent each.

In August, the only areas with more overnight stays were the capital city Vienna and the flat, normally sunny, eastern

province of Burgenland. Worst-hit was the most westerly province of Vorarlberg, which had 7.4 percent fewer visitors.

The mountainous Tyrol easily defended its position as Austria's prime tourist destination, with nearly 30 percent of all overnight stays.

## Big pay rises expected for Austrian workers

Big pay rises were expected for Austrian workers in the coming autumn wage round after negotiators for 180,000 metalworkers and associated office staff achieved an unusually high settlement of 3.1 percent last weekend.

The raise taking effect on November 1 was one of the biggest in years, and well above the current inflation rate of about 2.5 percent. By tradition, the metalworkers' negotiations have a signal effect on subsequent wage rounds in other sectors.

Representing the employers' side in the talks which wound up early last Sunday, Hermann Haslauer said his position had been very difficult this year. On the one hand there had been the relatively high inflation rate, and on the other, the unusually high productivity of the metalworkers had had to be considered. "We can live with the compromise," he said in an Austrian ORF radio interview.

In the equivalent negotiations 12 months ago, there had been a 2.5 percent pay hike set-

tlement. At the time inflation was 2.1 percent.

Observers said a further factor making this year's talks sensitive was the high oil price. Employers argued they were under pressure from increased competition in the process of globalization.

The union side said the standard of living of its members must be upheld, and their purchasing power as consumers strengthened.

The settlement will have a strong effect on coming wage rounds next month, notably for

450,000 trade employees and 500,000 national and local civil servants.

The latter achieved a 2.3 percent settlement last year.

Last Sunday, the President of the Trade Union Federation (OEGB), Fritz Verzetitsch, said in a TV interview he was "absolutely" satisfied with the metalworkers' result.

He rejected any suggestion that the high settlement could aggravate unemployment, already high by Austrian standards but still low compared with the EU average.

## Jobless foreigners should be deported, Haider says

Foreigners registered as unemployed for six months or longer should be deported from Austria to their countries of origin, Alliance for the Future of Austria (BZ) leader Joerg Haider said last Tuesday. Haider, governor of Carinthia province, said proportionally double as many foreigners as Austrian citizens were out of work in the country, which is facing rising unemployment,

Deutsche Presse-Agentur (dpa) reported.

Haider said his senior coalition partner, Chancellor Wolfgang Schuessel, had admitted that the jobless quota among foreigners was too high, "but he hasn't done anything about it so far." Calling for deportations of foreigners after six months' unemployment, Haider mentioned even tougher rules in Austria's western

neighbour Switzerland. Foreigners who lost their jobs there, or whose residence permits had expired, were deported immediately, he said.

"There (in Switzerland), they've realised that the argument that the economy needs additional workers from abroad, has not been true for a long time," said Haider.

Early in September, August unemployment figures for

Austria were a record for that month since 1970.

The jobless rate for Austria was about 5.1 percent.

Although it is still far lower than the EU average of about 8.8 percent, the Austrian rate has a rising tendency while the Union's average is declining. The Austrian authorities did not give separate figures for unemployed foreigners in August.

## Headlights on for day travel...

Car drivers in Austria have to turn on their headlights even during daytime starting November 15, the country's parliament decided last Wednesday. Those not complying will not be fined initially. Lawmakers left it up to the government to decide when to end the grace period. Experts contend that requiring drivers to turn on their low-beam lights would significantly reduce the number of traffic deaths and injuries on the country's Alpine roads.

## ...higher speed limit to come

A higher speed limit of 160 kilometres per hour - 30 kph higher than the current limit - will be introduced on a section of Austrian motorway despite strong protests from road safety experts and environmentalists, officials said last Thursday. Transport and Infrastructure Minister Hubert Gorbach is to give the go-ahead for an initial test section - as yet unnamed - in the spring of 2006, said ministry project leader Hartwig Hufnagl. At present, all Austrian motorways have a speed limit of 130 kph. According to the newspaper Die Presse, the only country where it is legal to drive faster than 130 kph is Germany, where no speed limit exists on many sections of its Autobahn or super-highway network. As well as in Austria, the speed limit is 130 kph in such countries as France, the Czech Republic, Hungary, Poland, Slovakia and Slovenia. A limit of 120 kph is in force in the Benelux states, Spain, Portugal and Switzerland. The lowest limit was in Norway and Turkey, where drivers were only allowed to go 90 kph.

## Opposition against nuke plants

Opposition politicians in a parliamentary session last Wednesday urged the Austrian government to exert pressure on neighbouring countries against building or extending nuclear power stations close to the borders. There was concern that the governments in Slovenia, Hungary and Slovakia would decide to either newly build or extend the lifetimes of five nuclear reactors, said opposition Greens deputy leader Eva Glawischnig. She charged that Austria was repeating a mistake made in the 1990s when it had not reacted in time to proposals from its neighbours for alternative energy, and had thus been unable to prevent four new reactors at Austria's borders. Opposition Social Democrats (SP) environment spokesman Kai Jan Krainer declared that "the Austrians are afraid." They had expected that their government and parliament would take up the anti-nuclear cause, but so far there had been no progress. The Czech nuclear power station at Temelin, 60 kilometres from the northern Austrian border, had not become "a millimetre safer," he said, referring to a dispute in the early 2000's between Vienna and Prague. "Either you've strewn sand in the people's eyes, or completely failed in this question," he told the government factions.

## Rich getting richer, poor poorer

Austria's rich are getting richer and the poor poorer, the economic research institute WIFO said last Monday. There was increasing inequality in the distribution of income, said WIFO researcher Alois Guger, presenting the results of a study. Causes included unfavourable job market conditions, with an ever greater proportion of part-time and "mini" jobs. Above all at the fringes, there was more and more inequality. The upper 20 percent of wage and salary earners had 46 percent of the entire income in 2003, while the lower 20 percent had just 2.3 percent. The incomes of women had stayed far below those of men. In 2003, they were an average of 67.2 percent of men's, which meant the gap had widened by 1.5 percent since the mid 1990s. The closest was in the public services, where women on average earned 81 percent as much as men. WIFO said that in 2003, the average income in all sectors of the economy was 1,944 Euro monthly before tax. High earnings sectors were oil, energy, export industries, banking and insurance. Low wages on the other hand were paid in education and health, hotels and restaurants, and the textile, clothing and leather industries.

## Gender equality in national anthem

The Austrian national anthem may be changed to give equality to men and women, according to a proposal by Women's Affairs Minister Maria Rauch-Kallat published last Monday. She said a reference to "great sons" of Austria should be changed to "great daughters, sons." The term "fatherland" should be replaced by "homeland," and the words "brotherly choirs" by "joyful choirs." Politicians in Rauch-Kallat's conservative People's party (VP) pointed out that the new text must first be approved by the party's junior coalition partner, Alliance for the Future of Austria (BZ), on whom the VP relies for a majority in parliament.

Austrian Justice Minister Karin Gastinger pledged last Wednesday she will "use all means" to bring two prominent Austrian Nazi war criminals to justice. Quoted by the newspaper Standard, the minister's spokesman Christoph Poehinger added there could even be a reward for the apprehension of one of the two men, both aged in their 90s, Milivoj Asner and Aribert Heim. However, the interior ministry was responsible for rewards. Asner is within easy reach of the Austrian law. For more than a year he has been living freely in the southern Austrian town of Klagenfurt. Heim is in hiding and is believed to be in Spain.

## Boots posts ominous outlook for Xmas trading

Boots last week reported a new fall in sales and posted an ominous outlook for the Christmas period trading, attributed mainly to the faltering consumer confidence. Comparable sales fell by 1.6 percent in the second quarter - twice as fast as over the previous three months. But the firm said the first-half fall of 1.3 percent was distorted by cheaper medicines due to regulatory price changes, insisting that sales of its health and beauty ranges and toiletries had been encouraging. Boots, which has about 1,400 stores, estimated that lower prices of medicines had cost it about 1 percent of like-for-like sales over the past six months. The emphasis on the expertise of Boots as a health and beauty retailer was proving its worth, CEO Richard Baker said. "Our priority for the second half continues to be delivering for our customers while managing our trading margin, costs and working capital," Baker said. Figures showed that the total sales of health products were up 0.2 percent in the second quarter to be 0.6 percent ahead in the first half, while beauty and toiletries maintained their growth momentum to stand 3.3 percent higher after six months. But weak demand for food, photo products and electricals was reflected by sales of lifestyle ranges fading 3.4 percent in the second quarter to end the first half 3 percent down.

## Property prices shrink again

House prices in the United Kingdom fell 0.2 percent on the month in September, putting the annual rate of rise at just 1.8 percent, showed a Nationwide survey, released last week. That took the annual rate of increase to its weakest in more than nine years leaving the average home price at GBP 156,517. House prices also fell a seasonally adjusted 0.2 percent in August, leaving them up just 2.3 percent on the year. In the three months to September house price growth had stalled completely on the previous three months and was up just 2.7 percent on the year, Nationwide claimed. But the mortgage lender said that Bank of England's quarter-point interest rate cut to 4.5 percent in August coupled with the slower growth in house prices were helping to support the market activity. "Estate agents have consistently reported increased buyer interest over the last few months, which should help to support the market going forward," said the Nationwide's Fionnuala Earley. Just a year ago, British house prices were increasing by an annual rate of almost 20 percent on Nationwide's measure.

## Gate Gourmet workers accept peace deal

Workers at a mass meeting at Heathrow catering firm Gate Gourmet last week voted to accept a peace deal to end their long-running and bitter dispute. The company, which supplies 85,000 meals a day to British Airways, sacked several hundred mainly Asian women workers in August, sparking one of the biggest industrial disputes for decades. British Airways baggage handlers staged unofficial walk-outs in support of the Gate Gourmet employees, grounding flights for 24 hours and causing travel chaos for 100,000 passengers. Under the deal thrashed out between officials of the Transport and General Workers Union and managers at the American-owned company around 144 workers would be made compulsorily redundant. Hundreds of others would take voluntary redundancy. The union also won support at last week's Labour Party Conference in Brighton for a demand that workers should be allowed to take supportive industrial action in disputes similar to the Gate Gourmet row. The peace deal however was still pending to be ratified by the company's board of directors.

## Straw rules out military action against Iran

Britain's Foreign Secretary Jack Straw last Wednesday ruled out the possibility of future military action against Iran over the nuclear issue. "It is not on the agenda, I happen to think that it is inconceivable," Straw said in a BBC radio interview, cited by Deutsche Presse-Agentur (dpa). He added that European negotiators - with US backing - had "left the door open for further diplomatic action with Iran and I hope that they will take this opportunity." Week before last the United Nations nuclear watchdog passed a resolution that took Iran a step closer to sanctions if it did not ease suspicions about its nuclear intentions.

# Economic growth rate weakest in 12 years

Britain's economic growth rate in the three months to the end of June was the weakest in 12 years, the Office of National Statistics (ONS) said in London last Wednesday, throwing into doubt Chancellor Gordon Brown's growth targets and spending plans.

Gross domestic product (GDP) was up just 1.5 percent in the three months to the end of June compared with the same quarter last year, according to revised figures published by the ONS. It was the weakest annual expansion since the first three months of 1993 and much lower than the anticipated 1.8 percent rise.

The figures landed as the Confederation of British Industry's distributive trades survey for September showed that half of all retailers had suffered falling sales over the month, the highest number in more than 20 years. The bad news on growth and retail sales sent GBP sharply lower against the Euro and the USD. Analysts, on the news, were predicting imminent tax rises, and said the Bank of England would be forced to lower interest rates sooner than expected.

A breakdown of the GDP figures showed manufacturing had slid into recession in the first half, shrinking a revised 0.2 percent in the second quarter, after contracting 0.9 percent in the first. However, services expanded an unrevised 0.6 percent, unchanged from the previous quarter. Manufacturing accounts for less than 15 percent of the Briton economy, but services account for three-quarters of the economy.

Meanwhile, the CBI report's monthly sales balance fell to minus 24 from minus 18, the



Britain's Chancellor of the Exchequer Gordon Brown delivers his keynote speech to delegates at the Labour party annual conference held in Brighton, Sussex, England, September 26, 2005

weakest in the survey's 22-year history. Retailers were also the gloomiest they had ever been about the coming month. All sectors apart from groceries and specialist food were weaker than a year ago, the CBI said.

Dominic Walley, managing economist at the Centre for Economics and Business Research (CEBR), said the figures showed the retail slump was deepening. "Widespread pessimism about the retailing sector will be reinforced by this news, further weakening retailing shares," he said.

CEBR chief executive Douglas McWilliams added: "Brown's luck is running out at a crucial time. Whether growth comes in at 3 percent or 2 percent means relatively little to the general public, but whether their taxes go up or down does, and he is going to have to raise taxes unless he cuts spending."

Earlier last week McWilliams warned that taxes would have to rise by the equivalent of 3 pence in the GBP to meet the shortfall in government revenues following weaker-than-expected growth.

Jonathan Loynes of Capital Economics said the figures "provide support for our view that interest rates could fall again as soon as November." Week before last week Brown told the International Monetary Fund that record oil prices, the housing slowdown and a moribund Eurozone economy would hit UK growth, and he was set to revise down his forecast for the year.

He suggested the economy would expand by only 2.0 to 2.5 percent instead of the 3.0 to 3.5 percent he predicted in March, when he unveiled government plans to increase spending by GBP100 billion over the next

three years.

Economists said growth in 2005 could now be even lower. "The chancellor may soon need to do his numbers all over again," said Holger Schmieding, economist at Bank of America.

The IMF has cut its growth forecast for the UK to 1.9 percent from 2.6 percent for 2005. It said that while the UK was the second-fastest growing economy in the Group of Seven industrialised nations after the US in each of the past two years, it now expected it to be eclipsed by Japan and Canada this year.

Separately, the ONS last week also released the UK balance of payments figures showing a current account recorded a deficit of GBP 3.05 billion in the second quarter, lower than expected and the smallest since the first quarter of 2003.

## Shake-up fails to halt profit slide at Jenners

Jenners, the historic Edinburgh department store, suffered a further slide in profits amid falling consumer sales during the first half - but the new owner, House of Fraser, last week promised that its back-office shake-up involving more than 100 job cuts would deliver annual savings of more than GBP 3 million, Scotsman.com reported.

Pre-tax profits at the department store "will be no lower than GBP 1 million" this year, compared with an estimated GBP 1.5 million prior to the takeover, the new owner claimed in a statement. House of Fraser (HoF) said the integration of Jenners was already complete, but the immediate cost savings weren't enough to

prevent half-year losses of GBP 4.4 million across its 52 stores in "extremely difficult" trading conditions.

Analysts said department stores were among the worst hit by the current slowdown in retail spending, with cookware and soft furnishings among the poorest performing sections of the high street. HoF had already made 115 staff redundant at Jenners since it bought the family-owned Princes Street institution in March this year, including all the senior fashion buyers and a long-serving manager of the ground-floor cosmetics department.

Other savings were made through the removal of duplicated back-office functions such

as computer systems and the enhanced purchasing power of bulk-order stock buying. Although the Jenners deal was worth GBP 46 million, HoF arranged the sale of the flagship Princes Street store to an unnamed third-party property investor so that only GBP 14.1 million was actually paid.

Prior to the purchase, Jenners - which also includes two small airport gift outlets and a shop on Loch Lomondside - was eyeing to reap an annual profit of about GBP 1.5 million. However, the last week's figures, which were significantly lower, couldn't dent the confidence of the new owner.

HoF also announced through the statement it would

introduce more of its own-label brands into Jenners, but repeated its earlier promise not to tamper with the historic brand, which was established in 1838.

"Whilst there is a high brand overlap with the core business, there are opportunities to enhance the product offer in Jenners and to bring other new departments such as toys to the rest of HoF group."

Other earnings-enhancing opportunities identified include consolidation of certain head office functions (including buying functions),"the statement read. HoF Group expects Jenners to deliver a profit before tax and exceptional items of not less than GBP 1 million in the current year.

# SIF dumps shares in Iceland Seafood Intl and Tros

**S**IF Ltd, a leading international player, has completed the sale of its shareholding in Iceland Seafood International Ltd, Iceland Review reported last week. With the sale, SIF also finalised the sale of its shares in Tros, the Sandgerdi-based company specialising in fresh seafood exports.

It was reported last March that the original agreement provided for the sale of only 55 percent of SIF's shareholding to new owners who are Ker, Bjarni Benediktsson, and Benedikt Sveinsson, and the sale date was April 1, 2005.

The sale of Iceland Seafood International represents a major milestone in the implementation of SIF's strategy, which a focus on the production of value-added foods for the European market.

SIF is a leader in various categories of value-added festival foods and oven-ready dishes. Currently, SIF has 4,000



A trawler in Iceland

workers in five countries, with 12 production plants in France, England, Scotland and Spain. SIF products are sold under the group's own trademarks, Labeyrie, Blini, Delpierre, Skandia and Lyons Seafoods, and its presence is felt in supermarket brands in its market coun-

tries. Sales by the SIF Group are estimated to reach about GBP 600 million during the current operational year (July 1, 2005 to June 30, 2006).

Iceland Seafood International was founded in November 2004 to handle SIF's traditional marketing and sales of

primary-processed seafood.

It sells fresh, frozen and salted products from Icelandic producers through its international marketing network, with units based in Iceland, Britain, France, Lithuania, Poland, Greece, Canada, Italy and Spain.

## Portus to build conference centre in Iceland

On September 22, Portus Group was awarded the contract to build and operate the East Harbour Project, an Icelandic national concert and conference centre, in downtown Reykjavik, Iceland, Iceland Review reported.

The centre is scheduled to open in 2009. Portus Group is owned by Landsbanki Islands hf, Nysis hf and Islenskir aolavertakar hf. The architects are Henning Larsens Teg-

nestue, and Islenskir aolavertakar is the primary contractor.

According to the East Harbour website, the aim of the project is to create a major complex in the Icelandic capital city, comprising a concert hall, conference centre and hotel, with a further opportunity to develop office or retail elements. The total floor space of the concert and conference complex will be 23,000 square feet. The concert hall will accommodate 1,800

people. The hotel building will be similar in size to the concert and conference complex. The centre will house the Icelandic Symphony Orchestra.

The high profile buildings will contribute to the city's skyline and will serve as an icon symbolising both Reykjavik and Iceland. The overall construction cost of the concert hall and conference centre will be USD 116 million. Portus will provide financial aid in the construction

and operations, which is estimated to cost around the same amount. The Icelandic government and City of Reykjavik support the project. In April 2002, both these parties signed an agreement assuming that the project will be carried out in the form of a private finance initiative. Icelandic artist Olafur Eliasson designed the exterior of the complex. Conductor and pianist, Vladimir Ashkenazy, was a special artistic consultant.

## IRELAND

### Ireland, Britain to jointly purchase flu vaccines

Ireland and Great Britain recently submitted a joint tender for the purchase of vaccines to tackle a potential flu outbreak this winter, Ireland Online reported. This move was adopted in order to reduce the cost of fighting any outbreak. Ireland is reportedly looking for around a million vaccines, which would be enough to treat around a quarter of the population.

### Zeus opening plant in Ireland

The Orangeburg-based Zeus Inc, a world leader in design and production of fluoropolymer tubing, announced on September 23 that it would set up its first production 28,000 square feet facility in Letterkenny, Ireland, Ireland Online reported. The facility will be a multimillion Euro project. Once the plant comes into effect, Zeus will have nine facilities on six campuses in North America and Europe, making it among the largest volume producers of precision fluoropolymer extrusions in the world. The establishment of the plant will create 150 jobs over a five-year period. The plant will focus on the production of the company's precision extrusions in Europe's medical, electronics, semiconductor, aviation and aerospace industries. Zeus officials stated that discussions are in progress to purchase a 2.9-acre lot for future expansion adjacent to the property. Zeus President and CEO John Worley owes the Ireland expansion to the recovering global economy and the need for proximity to medical-device customers in Ireland and in the European market in general. Worley added they preferred Ireland because of its reputation as a country with highly literate people and motivated work forces which are considered to be very important factors in the production of high-technology products. Worley also cited Ireland's "favourable business environment and extensive medical technology industry cluster" as other reasons for locating there. He said, "Ireland also is more accessible to our established European customer base, which utilises our extrusions in highly specialised medical and industrial applications." Worley also acknowledged the assistance of IDA Ireland, the Irish government's economic development agency in relation to Zeus investment in Letterkenny. Moreover, by manufacturing inside a European Union country, products can be sold in Europe with minimal duties, said Karl Graffte, Zeus director of marketing.

### Enterprise Ireland launches TechSearch

Enterprise Ireland has launched TechSearch in order to boost business with a new initiative that encourages firms to buy in technology to increase their technical capability, it was reported recently. The main objective of the TechSearch service is to help firms seek out technology for licensing using its international database and contacts list. Once Enterprise Ireland establishes the company's requirements, it can search its database and plan a short list of possible suppliers for discussion with the firm. The advantage of buying technology rather than developing it in-house is that the company can improve a product or process without investing a large amount of time, human resources or money. This can also help companies get their products to market quicker. The TechSearch service also provides support for businesses through each step of the process, such as assessment of the company's existing technologies and processes, the evaluation of potential projects and contract negotiation, IrelandOnline reported. Jim Cuddy, Enterprise Ireland's manager of the technology transfer department, explained that in many cases, TechSearch would complement the R&D process. According to Cuddy, Enterprise Ireland expects to handle up to 40 of these projects a year. Enterprise Ireland also has the advantage of being the sole provider of such a service in the country. According to Enterprise Ireland, a number of sectors in Ireland have already adopted the concept of technology acquisition, including biomedical, food processing, electronics and automotive engineering industries. However, despite the growing trend in the adoption of this service, Ireland is still lagging behind. According to figures released by the organisation on September 23, awareness and uptake of technology licensing in Ireland is relatively low. Irish business invested around one billion Euro on R&D in 2003.

## NORWAY

### Yara ready to close South Africa factory

Norwegian fertiliser manufacturer Yara recently announced that it plans to shut down a factory in South Africa. Egil Hogna, head of investor relations at Yara, told Norway Post that Yara's Kynoch production site, in Potchefstroom in the north of the country, produced around 200,000 tonnes of low grade fertiliser a year for the domestic market, around a percent of the Oslo-based company's global production. The closure of the factory will cut 200 jobs. Yara currently employs around 450 people in South Africa out of a global total of 7 000. The negotiations with the employees over the closure could take six months.

Hogna said that for the past two years, South Africa has been a breakeven market so restructuring will clean the parts which have been loss making. He said Yara will continue to supply the South

African market by importing products. Yara said in a statement the closure and restructuring of the South African business would cost 100 million Norwegian crowns.

### Norsk Hydro to buy Houston's Spinnaker

Norway's second largest energy company Norsk Hydro will acquire the Houston-based Spinnaker Exploration for 2.56 billion Euro, Norway Post reported last week. Norsk Hydro, which is traded on the New York Stock Exchange is expected to pay will pay 65.50 Euro per share of Spinnaker in an all-cash deal and assumes 110 million Euro in debt.

Spinnaker's stock closed on September 23 at 48.75 Euro per share but finally 15.50 Euro per share to trade at 64.25 Euro.

According to Hydro's CEO Eivind Reiten, the acquisition is an important

break through in Hydro's international growth strategy.

### Norwegians back NATO entry

A new survey recently showed that public support for Norway's membership in the North Atlantic Treaty Organisation (NATO), Norway Post reported, citing Norwegian Broadcasting. The poll was conducted by AC Nielsen for Folk og Forsvar (People and Defence), a military umbrella group sanctioned by parliament with more than 70 organisations as members. According to the poll, 68 percent questioned said NATO membership contributes towards making the country more secure. The poll also showed an increase in the portion of the population, which believes that the danger of an attack on Norway is rising. It was up to 10 percent, from 6 percent last year. Men are more positive towards NATO than women.

## Applix extends partner network in Sweden

Applix Inc, a global provider of TM1, a single platform for Business Performance Management (BPM) and Business Intelligence (BI) solutions, last week announced the addition of two Swedish partners, Resco and Itera Consulting, to its global partner network. Resco is an international consultancy firm within the IT and ERP systems and business development sectors. Itera is a Scandinavian consulting group whose services include providing advanced business solutions including BI and business performance management. The move by Applix was aimed at expanding the company's foothold with customers in the Scandinavian BI market. "The Resco and Itera partnerships were developed as part of Applix TM1's extensive channel programme and bring together more than 20 years of expert BI consulting knowledge to the Applix TM1 partner network programme in that region," an Applix statement said.

## AP4 pension fund rejects Old Mutual bid

The Fourth National Swedish Pension Fund (AP4) last week confirmed it would reject Old Mutual's offer for Skandia Insurance Co Ltd for the "same reasons cited by Skandia's board." The pension fund holds 1 percent of Skandia's votes and capital. "The reasons given by Skandia's board of directors are shared fully by the Fund," said AP4. Specifically, the fund added that the Skandia board's rejection of the bid made it hostile, and that "Skandia has set out a credible case" for continuing as a stand alone operation. The fund also said it saw risk in a bid that would be paid for in the form of newly issued shares in Old Mutual. "Since the major part of that company's cash flow and profits are generated in South Africa, the currency risk and political risk inherent in the offer appear to be abnormally high," it said. Week before last the Second National Pension Fund with a 3.2 percent holding in Skandia, also rejected Old Mutual's bid.

## Ellibs signs e-book platform deal with elib

The premier European e-book provider Ellibs last week signed a "significant" agreement in Sweden with eLib to strengthen its position as one of the major global e-book platform, a joint statement revealed. The company also signed new agreements with several Swedish non-fiction and educational publishers. Over 300 libraries use Ellibs' web library on e-book services. As part of the accord, Swedish e-book provider eLib and Ellibs has agreed to cooperate on selling e-books in Sweden. "This cooperation will open totally new possibilities for Ellibs and it's publishers on providing e-books while the company is looking for new tools in internet sales and marketing Ellibs web library as free platform to lend e-books," commented Kristian Laiho, managing director at Ellibs.

## Alfa Laval clinches contract to acquire Tranter PHE

Alfa Laval – a company specialised in heat transfer, centrifugal separation and fluid handling – last week announced that it had signed an agreement to acquire Tranter PHE from the US company, Dover Corporation. Tranter PHE is a well-known company and a premium brand in the design and production of plate and frame heat transfer products and welded heat transfer products for a wide range of applications. The company had a turnover in 2004 of about 800 million Swedish crowns (USD 110 million) and has approximately 450 employees globally in R&D, manufacturing and sales. According to an Alfa Laval statement, the company agreed to pay approximately 1.1 billion crowns (USD 150 million) in cash. The closing of the transaction was however subject to clearance from regulatory authorities.

## Telia mobiles set record for messages

This past summer people in Sweden sent a record number of MMS messages. During June-August, 6.1 million MMS messages were sent through Telia's mobile network, an increase of 56 percent, compared with the same period last year, according to a Telia statement published last week. The number of subscribers with camera-equipped mobile phones doubled during the past year, and in July, approximately two million Telia customers were able to send images from their mobile handsets.

# Lindex swings to profit

## Fashion group gets back in the black with strong result

One of Sweden's biggest fashion companies, Lindex AB, last week reported its return to the black in the fourth quarter of its last fiscal year. The company reported a loss for the same period last year.

A Lindex statement showed the company secured a profit of 114 million Swedish crowns in the fourth quarter, up from a 5 million crowns loss it reported for the corresponding period last year.

Rising sales and operating margins coupled with reduced staff costs were said to be behind the improved results.

Sales during the quarter rose 1.7 percent to 341 billion crowns. Same store sales excluding currency effects rose 1.8 percent from a 2.4 percent fall for the same period last year.

The gross margin strengthened significantly during the

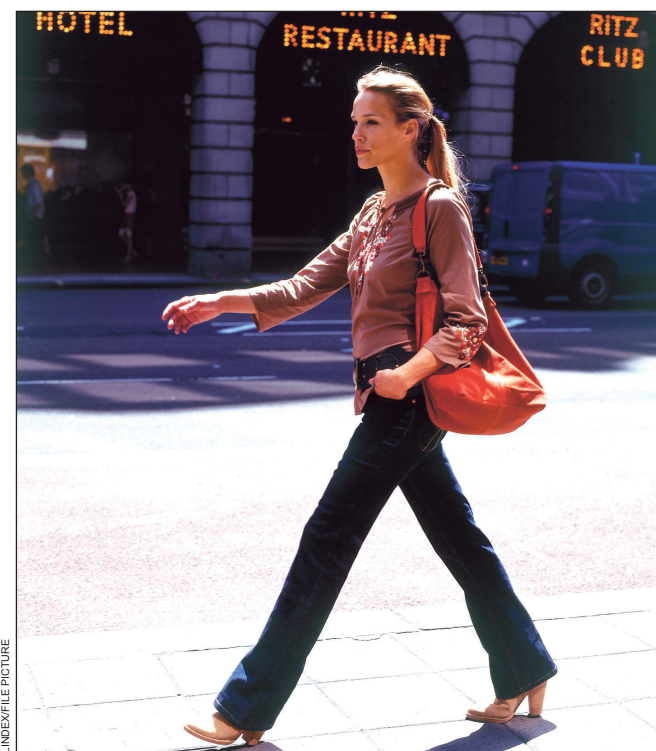
fourth quarter to 56.8 percent compared with 50.9 percent.

For the financial year ended August 31, Lindex said its net profit increased to 309 million crowns from a 76 million crowns loss.

Operating profit rose to 391 million crowns from 28 million crowns.

Sales for the full year however plummeted by 2.8 percent to 5.20 billion crowns from 5.35 billion crowns. Same stores sales, excluding the currency effect, fell by 1.4 percent compared with the previous year. The gross margin for the 2004/2005 financial year increased to 57.5 percent from 53.2 percent.

Lindex has also unveiled plans to expand its operation in the next few years with additional stores in the Nordic markets, Germany and in the Baltic States. In total, it will open 20-30 new stores per annum during the next few years.



A Lindex fashion model

## Stockholm and Delhi team up in e-governance

Sweden and India have decided to cooperate and forge alliances in key areas of IT, namely e-governance, telemedicine and in improving software usage by small and medium businesses (SMBs), the local media reported last week, quoting the Indian Union Communication and IT Minister Dayanidhi Maran.

Addressing a joint press meet along with his Swedish counterpart Ulrica Messing, who was leading an eight-member ministerial delegation to India, Maran reportedly announced their joint decision of inking MoUs in these areas shortly, after finalising "various details."

According to him, Sweden, which ranks third in the world in computer penetration, agreed to share the best practices and its experiences to India in its ambitious plan to link 100,000 villages across the

country through e-governance by the year 2006.

"Sweden is highly advanced in telemedicine and e-governance. I have also asked the minister to support us financially in the telemedicine projects," Maran said. Already, Swedish telecom equipment majors, including Ericsson, were expanding their operations in India, Maran noted.

Messing, who is the Swedish minister of infrastructure (which includes IT & telecom), said stronger relations between Sweden and India would help both the countries in learning from each other in frontline technologies.

Messing, who is also in charge of tourism, was scheduled to visit Mahabalipuram, about 60km from Bangalore, often dubbed as the Indian IT hub, to explore its tourism potential. Messing said her government welcomed more

tourists from India to visit Sweden. "India is a country of one billion people. We see this as a great market and opportunity to promote our tourism sector," she said.

On e-governance projects, Maran said the Department of IT had already spent Rs 3,300 crore on state-wide area network. Through the cooperation with Sweden and other countries like the United Kingdom, the department was also looking at standardising the e-governance projects of various states like Karnataka, Andhra Pradesh, Kerala and West Bengal, he said.

Maran said public-private partnership would be encouraged for e-governance, telemedicine and SMB initiatives.

On the telecom front, he said various MNC equipment manufacturers were expanding in India. Stating that the government was focused on

increasing the voice penetration in the country, he said the target was to hike the teledensity from 9.97 percent to 22 percent next year and asked for further Swedish participation in the sector.

India and Sweden also discussed various issues on identifying mutually beneficial ICT areas and forging collaboration to further strengthen bilateral activities within governments, industries and academia of both the countries, a statement released to the press said. "The importance of ICT for sustained economic growth as well as its significance for qualitative and improved health care, public administration and education were highlighted during the discussions," the minister said.

The Swedish delegation was also scheduled to visit IIT Madras, the Tidel Park and the CII office.

## Eniro offers to buy Norway's Findexa

The Sweden-based telephone directory group Eniro AB recently placed its bid to take over its Norwegian counterpart, Findexa Ltd, for over 7.9 billion Swedish crowns, reports said last week. The proposed deal, expected to result in the formation of the largest directory group in the Nordic region, was still subject to regulatory and shareholder approvals and was expected to be completed by the end of November.

Findexa board Chairman Tom Vidar Rygh said the deal would enable the company to expand the rate of new product development and offer more services. Under the terms of the deal, Eniro offered to pay Findexa's stockholders 23.23 crowns (USD 3.58; 2.98 Euro) per share in cash plus 0.132 Eniro shares. Eniro said that the stock portion would be made up of 26.8 million new shares. The total offer price was estimated at nearly 32 crowns per share.

## Vaccine shortage threatens Sweden

Sweden has the second worst supply of Influenza vaccines in the western world, industry paper Dagens Medicin (DM) reported last week, quoting a new report commissioned by the World Health Organisation (WHO), prior to its publication. The country's low number of available vaccines diminishes the prospect of Sweden having enough to be able to cope with the next major pandemic, noted Dagens Medicin. The quantity of vaccines that a country may buy is based on early consumption of the Influenza vaccine.

"The outcome is going to be far worse for Sweden than for many other countries," said Annika Linde, an epidemiologist at the Swedish Institute for Infectious Disease Control (SMI), to DM. In 2003, 127 people per 1,000 in Sweden were vaccinated against Influenza.

Only Norway was lower, with 102 per 1,000.

# Steelmaker Outokumpu issues profit warning

The Finland-based steelmaker Outokumpu Oyj last week announced plans of moving new orders from the United Kingdom to Finland - with a possible loss of jobs in Britain - while downsizing its third quarter outlook. The company said in a statement released last Monday that overproduction and low stainless steel prices could lead to a third-quarter operating loss.

The world's second largest stainless steel maker confirmed that it was on with its pre-announced target of cutting-down production. However the statement added that the preset aim of trimming the production by 150,000 tonnes was likely to be surpassed in the three months through September 30 with the total slashed amount expected to be 50,000 tonnes more than planned - and operating profit in the period was expected "to be negative."

The news sent the company's shares plummeting 7.8 percent immediately on the Helsinki Stock Exchange. Outokumpu said new production in China had kept stainless steel base prices "at a very low level" worldwide, and said its full-year operating profit will be lower than in 2004. The compa-



A Mitsubishi cold rolling mill at the Outokumpu plant

ny would release its third-quarter results on October 25.

The announcement followed a slight drop in second-quarter performance when the group cautioned that a weak stainless steel market would cut into third-quarter results after its steel deliveries in the second quarter fell 5 percent.

Outokumpu said it would transfer all new orders from

Coil Products Sheffield to its plant in Tornio, northern Finland, where it had expanded production capacity, adding that the move could lead to reductions in the shifts of workers at the British plant. It gave no other details.

A year ago, Outokumpu announced it would quit copper production, aiming to become the world's leading stainless

steel producer. It moved into the second spot in 2000 when it merged steel operations with Avesta Sheffield to form AvestaPolarit. Outokumpu, with annual sales of more than 6 billion Euro (USD 7 billion), is based in Espoo just outside the Finnish capital. It employs 13,000 and in 40 countries. The Finnish government holds a 40 percent stake in the group.

## Finland most competitive country, WEF says

Finland topped the charts again this year in the competitiveness comparison of the World Economic Forum (WEF) - for the third time in a row, it was reported last week. According to the report, Finland's fortes are the excellent state of its national economy, the innovativeness of its companies and low levels of corruption. Finland's failings, according to WEF, include high taxation and strict regulation governing the labour market.

The runner-up in the comparison was the United States of America with Sweden com-

ing third. The composition of the top trio remained the same as last year.

The WEF report painted a rosy picture of Finland, and the rest of the world has been advised to model itself after "the little wonderland of the north."

The report said Finland "puts to shame" many of the more populous countries in Europe, "as it has prepared for the aging of its population through a budget surplus," something many other countries have neglected to do.

"This is proof of Finland

being politically mature," the WEF continued, adding: "It is something other countries should emulate."

The report lavishly praised on the innovative and law-abiding Finnish business environment. On the other hand, the report warned Finland of turning into a mobile phone republic, as the success of the mobile phone giant Nokia is seen as a considerably more significant factor in Finnish economy than for example inflation.

Meanwhile, Finnish Prime Minister Matti Vanhanen announced last Wednesday

that further tax cuts were precluded by the prevailing business outlook.

Speaking in a Finnish Central Chamber of Commerce seminar, Vanhanen added however that there was reason to ponder setting up an expert working group to future pinpoint income tax reform targets in view of the next government negotiations. Finnish unemployment is structural and not easily lowered through purchasing power-boosting tax cuts alone, Vanhanen mused, adding more complex tools are needed instead.

## Jobless funds fear part-timers will stop working

The Federation of Unemployment Funds in Finland (TYJ) last week voiced its disquiet about the upcoming changes to earnings-related allowance rules. TYJ fears that as hundreds of part-time workers would no longer be eligible for adjusted allowance as of January 2006, working would be perceived less preferable to full unemployment due to various incentive gaps.

The federation added that the possibility to be granted adjusted allowance would spur these people into accepting both part-time and temporary jobs. Ranja Nenonen, the chairman of TYJ, speaking at its annual meeting, said: "It is utterly unreasonable that people are being encouraged to opt for unemployment rather than to work at least part-time." TYJ is the voice of all the 38 wage-earners' funds and the two entrepreneurs' funds in the country, with a total membership of more than 1.9 million people.

## Wartsila signs cooperation deal with Mitsubishi

Finnish engineering firm Wartsila and Japan's Mitsubishi Heavy Industries (MHI) recently signed a "strategic alliance" on two-stroke diesel engines, the former company said in a statement last Wednesday. "The two companies will share their resources and experience for improved business.

Various possibilities will be explored in research and development as well as in the efficiency of production and distribution of jointly developed two-stroke diesel engines," added the statement.

The agreement, for which no financial details were disclosed, came as a continuation of the co-development of a new 50 cm-bore two-stroke engine range, according to Wartsila.

Both companies make ship engines and piston engine power stations, among other things.

## Kerava to get Vuosaari harbour logistics centre

The Finnish town of Kerava said in a statement last Tuesday that it and the builder SRV had launched the planning of the Vuosaari inland port, which means the logistics centre of Helsinki's new harbour, under construction in the southeast corner of the capital. The centre, with an estimated construction cost of 100 million Euro, is to be ready by the end of 2008. "Placing the logistics centre in Kerava is rational as the area has unique land resources of more than 100 hectares at the junction of the Vuosaari harbour railway and the Lahti motorway," Jouko Poyhonen of SRV was quoted in the joint statement as saying. Port of Helsinki expects Vuosaari harbour to run at full capacity by the end of 2009 when it would replace port facilities in central Helsinki.

## Metsaliitto streamlines corporate structure

Finland's Metsaliitto group has been streamlining its corporate structure, it was reported last week. Subsidiaries Finnforest and Tehdasmittaus would shortly be merged into Metsaliitto Cooperative, the group said in a press release last Tuesday. According to the statement, the talks in Finnforest and Metsaliitto Cooperative, which it said would begin "immediately," was aimed at finding out "the effects of the mergers on the need of personnel." The statement also unveiled that Ari Martonen, chief executive of Finnforest, recently formally tabled his decision to leave his position. Ole Salven, chief executive and president of Moelven, part of Finnforest Group, has been appointed as the new chief executive and head of Finnforest operations within Metsaliitto Cooperative.

## EU sues Finland over wolf hunting

The EU Commission has brought legal action against Finland in the Court of Justice of the European Communities over wolf hunting, it was reported last week. The Finnish government received the complaint last Monday. Environmental legislation of the EU requires for wolves to be protected, and killing it knowingly is not permitted, excluding some exceptions. However, Finland allows the systematic hunting of wolves, according to the commission. Hunting permits are granted based on quotas, and they are not restricted to harmful individual wolves.

## Half of Finnish Roma without jobs

Half of Finland's Roma population is unemployed, it was reported last week. Also its level of education is low. All in all, there are some 10,000 Roma in Finland. Most of the Roma live in southern Finland, where also the greatest problems are concentrated, said Malla Laiti, an official of the provincial government, speaking last Tuesday in the town of Oulu at a seminar on Roma issues. "The Roma have a short history of schooling. The first generation to complete the obligatory years dates from the 1960s and 1970s," she added.

## Tekes proposes innovation tax breaks

Finland should use tax breaks to better encourage starting companies as well as individuals to innovate, said Heikki Kotilainen, head of the National Technology Agency of Finland (Tekes), in a statement last week. He added that countries such as Taiwan, South Korea and Singapore were leaders in being flexible in the taxation of firms and people who invest into innovations. "In those countries innovation policy has been elevated into a much more central position than in others," Kotilainen noted.

## Bank of Finland cuts 2005 growth forecast to 1.6%

Finland's central bank last week posted expectation for the Finnish economy to grow at 1.6 percent this year. The Bank of Finland put the rate at 3.0 percent in March, before the drawn-out industrial dispute in the country's pulp and paper industry. The central bank this time predicted 2006 gross domestic product growth at 3.7 percent, up from the 2.9 percent it said in March.

## TrygVesta to conduct IPO

Danish insurance group TrygVesta AS said last Monday a total of 24.7 million shares - or 36.3 percent of the outstanding shares - will be offered in connection with its planned initial public offering on October 14. The shares are being sold by the company's shareholder, Tryg i Danmark smba. TrygVesta is the second largest general insurer in the Nordic region with strong market shares in Denmark and Norway and with a growing business presence in Finland. Morgan Stanley and Nordea AB are the joint global coordinators of the IPO. There is an over-allotment option of up to 2.5 million additional shares, corresponding to 3.7 percent of the outstanding shares. The shares will be sold to retail investors in Denmark and to institutional investors in Denmark and internationally. The offer period will run between October 4-13 and the price will be determined through a book-building process.

## Welfare model cuts marginalisation

Denmark's welfare model is one of the best among OECD countries at keeping people connected to the labour market, The Copenhagen Post reported Thursday before last. Denmark's welfare model marginalises far fewer people than the neo-liberal, Anglo-Saxon model and the more corporate-minded welfare model advocated by Germany and France, according to a comparison organised by Raymond Torres, the head of the OECD's employment office, for daily newspaper Information.

## CB says housing price fall minor

After months of warnings about a housing price bubble, National Bank of Denmark has temporarily relaxed its scare stance on the subject of housing prices, national daily Jyllands-Posten reported Thursday before last. In a statement, the central bank said that although housing prices in Copenhagen had more than quadrupled in the last decade, the hike could be explained by many other factors, rather than just falling interest rates. These factors include rising incomes, fixed property taxes, and a new brand of mortgage products with favourable rates. A future rise in interest rates will not automatically trigger a drop in real estate prices, the central bank said in its quarterly forecast.

## Sonofon targets Danish 3G licence...

Telenor ASA's Danish mobile unit Sonofon AS is aiming to buy the Danish 3G licence that will be auctioned soon, daily Berlingske Tidende said Friday before last, citing Sonofon chief Allan Koch. "That's still the plan," Koch said. "We don't know the conditions and minimum price yet, but we expect to be in the auction." Earlier, the National IT and Telecom Agency said it will auction the available 3G mobile licence "before long" and expects to announce a winner on December 9. The licence runs to 2021.

## ...Tele2 unit unlikely to bid

Tele2 AB's Danish unit, Tele2 AS, is very unlikely to bid for a third-generation mobile-telephony licence which will be auctioned off soon in Denmark, Managing Director Niclas Palmstierna said Friday before last, cited by Forbes. Although Tele2 is always looking for business opportunities, "We don't think it is very cost-efficient to build four 3G networks in Denmark," Palmstierna said. He said he felt two 3G networks would be sufficient, with all operators given access, as Denmark is geographically limited.

## Swisscom may acquire TDC

International investment bank Goldman Sachs claims Swisscom stands a 30 to 40 percent chance of buying Danish telecom company TDC for a price that would increase the Swiss telecom's primary earnings per share and free cash flow, Copenhagen Post reported Thursday before last. Daily newspaper Jyllands-Posten reported that while TDC fit Swisscom's acquisition strategy, its Swiss subsidiary Sunrise might complicate the deal. Swisscom would also refrain from a long bid race over its Danish rival.

## Andersen was autistic, book says

Had Denmark's most famous man, fairytale author Hans Christian Andersen, been alive today, he would have been diagnosed with Aspergers Syndrome, Irish professor Michael Fitzgerald claims in a new book, The Copenhagen Post reported Thursday before last. Fitzgerald describes some of the 19th century bard's main characteristics in detail, concluding that he obviously suffered from a mild form of autism. People with Aspergers Syndrome lack social skills and have a strong need for routines and repeated actions.

# Novo Nordisk set to sue Sanofi-Aventis

**N**ovo Nordisk AS said Friday before last it is suing Sanofi-Aventis SA in a US court for infringing patents for its insulin delivery pen. Denmark's Novo Nordisk claims that Sanofi-Aventis "willfully and deliberately" infringed Novo Nordisk patents. It seeks an injunction against Sanofi-Aventis' OptiClik pen system.

The Danish company has an insulin delivery pen called FlexPen. Novo Nordisk filed the lawsuit against Sanofi-Aventis on September 2 at a court in Delaware. Some of Sanofi-Aventis' affiliates in the US, Germany and Switzerland are also involved. Novo Nordisk's lawsuit against Sanofi-Aventis' (SNY) Opticlik "means that about 1 percent of Sanofi-Aventis' 2005 EBIT is theoretically under threat," said brokers Oddo Securities, but they added that there are "few details at the moment on the financial impact."

According to them, "The legal action will not take place before 2007 and we believe that Sanofi is likely to continue selling OptiClik in the meantime." Novo Nordisk's patent lawsuit against Sanofi-Aventis' (SNY) OptiClik pen system reflects the high entry-barriers in the diabetes treatment market, the Copenhagen-based analyst said, cited by Dow Jones.

"This makes patent infringement cases very sensitive to a company like Novo Nordisk," he said. Does not think the news will have any



Patient using NovoPen® 3 for children

effect on NovoNordisk's share price.

## Novo to gain by split

In another development, Novo Nordisk faces a historic split-up, The Copenhagen Post reported Thursday before last. The leading insulin producer has already been divided in two, and one half has judicially been relocated to Switzerland, business daily Boersen reported.

Novo's two strategic pillars, diabetes drugs and therapeutic hormones, are very different pharmaceutical fields of production, and biotech investors said dividing the company into two independent producers

would be a logical decision. "I'm generally expecting a surge of split-ups, as the sheer size and complexity of big medicinal companies prevents them from present the double-digit growth rates they are pining for. Even Novo Nordisk would benefit from it. A division into two listed Novo companies would place a healthy pressure on development of new medicinal products and lead to a marked value increase for the owners," said Florian Schonharting, partner in biotech fund Nordic Biotech.

The suggestion calls to mind Novo Nordisk's successful and value-enhancing split in 2000 in which enzyme producer

Novozymes was created.

Novo Nordisk, however, said it would only consider cutting the hormone production loose when it was big enough to stand on its own, and the benefits of operating separately outnumbered the benefits of staying together.

Nomura initiated Friday before last coverage with a buy recommendation on Novo Nordisk.

The broker said the conversion of the global insulin market to improved, higher-margin, analogue products should enable Novo Nordisk to achieve double-digit sales growth for its core diabetes care franchise over the period 2005-2010.

# Contractors say no to cheap labour in Denmark

Eastern European construction workers hired to work in Denmark for a fraction of their Danish comrades' pay are persona non grata on work sites, the nation's largest builders have told their sub-contractors, The Copenhagen Post reported Thursday before last. Influential weekly newsletter A4 reports that seven out of the eight largest construction companies have or are creating clear rules

for their sub-contractors for using foreign labourers.

Construction firms such as Skanska, NCC, J&B Enterprise, and KPC Byg all have rules stating that sub-contractors may not use labourers hired to work for less pay than that dictated by collective bargaining agreements. Three other companies, Hoffmann, E. Pihl & Søn, and Ove Arkil, all say they plan to make similar demands.

Contractors see the rule as a way of ensuring good labour relations.

"We want peace on our work sites, and this is effective," said J&M Enterprise CEO Preben M. Christiansen, adding that the demand was not a way to exclude eastern European workers. "I don't have anything against using eastern European workers in a situation like the one we are experiencing now,

where there is a shortage of labourers. But they will work under the same conditions as everyone else," Christiansen told A4.

Construction labour organisation BAT looked positively on the development. They hoped that the attitude among major contractors would trickle down to smaller builders who were tempted to hire inexpensive labour from abroad.

# Political parties use millions on local campaigns

Political parties are expected to invest millions of Danish crowns in upcoming local elections in November, The Copenhagen Post reported Friday before last.

With the upcoming structural reform that merges smaller municipalities and promises to re-draw political constituencies, Social Democrats, Liberals, and other parties can no

longer take for granted that they will be able to maintain power in traditional bastions. Prestigious mayoral posts are also up for grabs in Copenhagen and second-city Aarhus, and the Social Democrats and the Liberals are expected to dig deep into their pockets to finance professional campaigns that cost millions of crowns.

In Copenhagen, for exam-

ple, former MEP Ritt Bjerregaard of the Social Democrats has already raised 1.3 million crowns (173,000 Euro) for her campaign - an amount that is expected to increase when personal contributions are tallied.

Political parties have more money available, according to Roger Buch, a researcher in local government at the Danish School of Journalism. Buch

also attributed the higher spending to national party organisations prioritising local elections more than previously, as well as the cancelled EU referendum freeing up funds.

"Campaigns will become more professional. More people will be able to afford professional experts that can help them create election material," said Buch.

# Madrid seeks channelling Iberian investments to US

Spain is trying to expand Spanish business in the United States and enhance the Iberian country's image before the American public in an effort to boost relations between the two countries, it was reported last week.

For US President George W. Bush, the Spanish government may still be in the doghouse since pulling its troops out of Iraq. But Spanish officials are determined to move beyond the bitterness and boost interest in exports, investment and more diversified tourism.

"We'd like to convert the United States into a stable market for our exports," LA Times quoted Jose Montilla, Spain's minister for industry, commerce and tourism, as saying last week. Spain represents an economy relatively unknown in the US, both as a producer and an importer, Montilla added.

The minister was speaking ahead of a mission he was heading last week to several US cities, including Washington and Miami, to promote the Spanish "brand" as part of a USD 100 million "Plan USA." The plan has been designed by the Spanish officials to explore opportunities in the US beyond the "sun and Serrano ham." The ministerial visit of last week was aimed at preparing ground in the US for the Spanish firms prepared to invest in technology, energy, pharmaceutical and other businesses.

Montilla said he also would be conveying a message from Prime Minister Jose Luis Rodriguez Zapatero that Spain would like "fluid relations" with the US that "increase and improve ties" in all fields. "It is very important, both for Spain and the United States, to overcome the chill of the recent past," he was quoted as stressing. The political relationship between Madrid and Washington took a nose dive after the electoral victory of Za-



Spanish Minister for Industry, Tourism and Trade Jose Montilla (L) delivers a speech while taking up his charge at his ministerial headquarters in Madrid, April 19, 2004

patero and his Socialist party in March 2004, which ousted a right-wing government that had been especially friendly to the Bush administration, the paper said. Zapatero's first action was to make good on a long-standing campaign promise to remove Spanish troops from Iraq, to the overwhelming approval of Spaniards but the great irritation of Bush.

Eighteen months later, there has still been no one-on-one meeting between the two leaders, and rhetoric has been harsh. It got so bad at one point that Bush refused to take Zapatero's phone call of congratulations last year after the president won reelection.

In recent months, however, a series of fence-mending gestures have occurred on both sides.

Spain's defence and foreign ministers had been received in

Washington by their counterparts, and a new, friendlier and Spanish-speaking US ambassador took up residence in Madrid. Bush reportedly thanked Zapatero at the recent United Nations General Assembly for Spain's offers of help for Hurricane Katrina victims. Montilla said he was confident that the realm of politics had not tainted the realm of economics. Spain's investment in the US is minuscule compared with that of Britain, France or the Netherlands. Traditionally, Spain has looked toward South America for most of its trade and business. But analysts these days are repeatedly pointing that Spain may be overexposed in that region and must channel its money elsewhere.

In contrast to several larger European countries, Spain has a relatively healthy economy. Madrid-based economic ana-

lysts shared the view that the effect that soured political relations might have on business was limited. Only in the cases of business based on government contracts would it be an issue, according to the observers.

Though no one can say that the cozy relations Madrid and Washington had under the previous government have been revived, the Spanish officials commonly admitted the recent arrival of the new American ambassador was a positive gesture from the US part.

Cuban-born Eduardo Aguirre, a Bush appointee, has sought to minimise the estrangement since his appointment on the Iberian land, according to the paper. Spain is also a top destination for US tourists. According to official figures, tourism accounts for 10 percent to 15 percent of the country's earnings.

## Murcia tourism figures swell

Murcia is one of the fastest-growing tourist destinations in Spain, according to the latest government figures released last week. Figures from Madrid's tourism ministry revealed that visitor numbers in 2005 were already up by 19 percent on the previous year in the region. The report – FRONTUR (Estudio de Movimientos Turísticos de Frontera) – showed that a total of 551,648 tourists arrived in the eight months from January to August in comparison with 463,840 in 2004. The national average in Spain during the eight months was for a rise of just six percent on the previous year. Jose Pablo Ruiz Abellan, Murcia's regional councillor for tourism and business said the increase pushed Murcia in the top few of the national rankings for year on year increase. In a press release published on the regional government's web site he stated: "These figures are a reward for all the promotional work which is being done by the tourism department to increase our share of the Spanish and the international market."

## Brits fuel Spanish building boom

The number of British people buying second homes in foreign countries has risen by 85 percent over the last 10 years with the majority of them choosing the Costa Blanca as their preferred destination, a new survey carried out in the UK found last week. Despite rumours claiming Britons are shunning Spain, figures in the survey showed that over the last few years 165,000 British buyers have chosen the Costas, with a growing majority opting for properties in quiet inland areas away from the hustle and bustle of busier tourist resorts on the coast. The study attributed the hike principally to the cheaper rates on the Costas compared with the United Kingdom as also to the comparatively better mortgage deals. It found most Briton buyers of Spanish property were keen to cash the opportunity to own a second home at a price 45 percent lower on average compared with those within the UK boundaries. As more and more British and German buyers take advantage of the current building boom to purchase properties in small inland Spanish towns, the ratio of expats to indigenous residents in many cases, have surpassed, according to official figures. This has led some town halls to open special foreign residents departments where various languages are spoken.

## Politicians vote to stop smoking in the workplace

The Spanish parliament unanimously agreed last week to throw out plans to allow smoking areas in workplaces when a new law cracking down on the habit comes in next year. All parties voted to get rid of a clause in a forthcoming bill which would have allowed smoking areas within the workplace. Spain is set to introduce an anti-smoking law nationwide from January. It will force owners of bars and restaurants with areas larger than 100 square metres to have air conditioning and non-smoking areas in at least 70 percent of the area. Lighting up in the workplace will also be prohibited. Selling cigarettes to those under 16 will be punishable with fines. The move follows similar attempts to cut smoking elsewhere in Europe. France attempted to curb smoking levels by raising the price of cigarettes by 20 percent in October 2003.

## CNE to approve Gas Natural's bid for Endesa

The majority of the members on the board of Spain's energy regulator CNE were poised to vote in favour of approving Gas Natural SDG SA's 22.5 billion Euro bid for Endesa SA, Expansion reported last week, without citing sources. According to Expansion, most CNE board members appeared sure that a possible acquisition of Endesa by the Catalan gas group would endanger the rollout of electricity networks in Spain. The CNE rejected Gas Natural's bid for Iberdrola SA in 2003 on the grounds that it could endanger network rollout. The newspaper said however that the CNE would require that Gas Natural comply with its proposed sale of 7-9 billion Euro of Endesa's assets if it wins the bid, and could also require another report on competition if the government approves the bid with conditions.

## Spain faces massive influx of Africans in Melilla

Spain was struggling to cope last Wednesday with a massive influx of illegal immigrants in Melilla, where within 24 hours about 1,000 Africans stormed the frontier fence separating the enclave from Morocco.

The incidents last Monday and Tuesday night were described as the strongest attempts ever made by would-be immigrants to breach the fence. About 300 Africans managed to enter the enclave despite nearly 200 police repelling them with clubs and rubber bullets. Dozens of

migrants and police officers reportedly sustained "slight" injuries. About 500 Africans attempted to climb the fence on each of the two nights, dividing into small groups and using hundreds of ladders to scale the barbed-wire metal fencing in several places simultaneously.

The immigrant reception centre in Melilla was housing more than 1,150 people last Wednesday, which is more than twice the number it had room for. About 350 of the immigrants were staying in tents outside the building.

Dozens more police were being sent to the border where some 2,000 Africans were estimated to be waiting for an opportunity to climb the fence before Spanish authorities increase the height of the perimeter. According to plans, the lowest parts of the fence would be doubled in height to six metres and work is expected to be finished by February 2006.

According to the estimation of the Spanish police more than 12,000 Africans have stormed the Melilla frontier this year. The real number could be

lower, as the figure probably includes many of the same people making renewed attempts. Local residents said they had never seen such massive, coordinated and determined attempts by immigrants to enter the enclave. "We did not have anything to lose," said Joseph, a 27-year-old Cameroonian who got into Melilla last Monday. He said he and his companions were chased by Moroccan police. "I knew I was bleeding, and my arms and legs hurt from the blows they had given me, but I had to continue," he explained.

## MALTA

## Private investors want to operate Park and Ride project

The Malta transport authority recently received offers from four private investors who expressed an interest in operating the Park and Ride project towards Valletta and Floriana. The government said the selection of the operator will be evaluated in the light of tenders and the result will be announced at the beginning of December and closed after the signature ceremony of the contract. The government is satisfied with the interest garnered by local investors. The Park Ride project is expected to be completed by May 2006, Maltamedianews reported. The government stated that the project will offer new parking for 950 in Blata l-Bajda. This parking area will in turn be equipped with a frequent transport system operating towards Valletta and Floriana. Works on the project as proposed in 1994 started in February 2005, where one of three junctions was built to facilitate the entrance and exits of vehicles from Crown Works and Horn Works, the very site of the parking area. The works were carried out in collaboration with the Environment Landscapes Consortium which observed the landscaping of the zone. However, the project came under criticism from various sectors.

## Maltacom records increase in operating cash inflows

Maltese Ministry of Investments, Industry and Information Technology, Maltacom chief operating officer Joe Azzopardi and Maltacom Finance Director Edgar Borg announced that Maltacom recorded very good results during the first six months of the year, Maltamedianews reported recently. Operating cash inflows increased to 15.5 million Maltese pounds, up from 11.7 million pounds and "Free Cash Inflows" increased from 4.9 million pounds to 5.2 million pounds. During the period under review, Maltacom invested 7.5 million pounds in financial instruments. During the meeting, the company spoke of its reductions in average tariffs across the whole range of services: fixed, mobile, and data. The company stated that despite a slight reduction in turnover, Maltacom achieved higher profitability and a substantial decrease in receivables. The ensuing enhanced liquidity was utilised to repay creditors, reduce the level of our borrowings from banks, and to increase investments. On the cost-management side operating expenditure was significantly less than last year's figure. This was due to reversals of certain provisions, arising from changes in accounting standards but substantial reductions were realised in traffic charges.

## Maltese deal with higher unemployment numbers

According to figures published by the National Statistics Office (NSO), at the end of August this year there were a total of 7,177 unemployed persons registering for work under part one and part two of the unemployment register, Maltamedianews reported recently. Of these, or 77.6 percent were men and 1 22.4 percent were women. There was an increase of 86 persons over the previous month, while on an annual basis there was a drop of 776 persons on the unemployment register. The new registrants under part one of the unemployment register amounted to 335 in August. The age distribution indicates that among those registering for work as at the end of August 2005, there were 3,019 persons that were under 30 years of age. On further analysis of the age variable it was indicated that in August there were 1,954 persons aged 45 and over registering for work.

## Volksbank announces good results in H1

Volksbanken-AG, the parent company of local commercial bank Volksbank Malta, recently presented its review of a successful first-half year. A-VAG was successful in improving its growth and result within the first half of the year, Maltamedianews reported. The balance sheet total as per June 30 of this year has increased by 26 billion Euro. This means an increase of 9.4 percent in comparison with the value by the end of 2004.

## EdP decision to accelerate energy sector restructuring

The decision by a court to uphold the European Commission's veto of the proposed purchase by Energias de Portugal SA (EdP) of 51 percent of Gas de Portugal is positive, it was reported recently. This decision will further accelerate the restructuring of Portugal's energy sector, Manuel Pinho, the economy minister, told Jornal de Negocios Online.

During a meeting with his Spanish counterpart Joseph Montilla, Pinho said that the case was the last barrier in the implementation of the government's plan for the energy sector. Pinho added that other business models are compatible with an increase in the competition in the sector.

On being asked whether he has confidence in EdP management, including Joao Talone, the chairman and the instigator of the project to tie-up with Gas de Portugal, Pinho preferred to remain silent.

He confirmed a report that the government plans to sell another 5 percent in EdP, Agencia Financeira reported.



Yes, just a pole, but electricity is supplied by monopoly EdP. Reform of Portugal's energy sector is on the cards

EdP shares were down 0.04 Euro, making a 5 percent stake worth 420 million Euro.

EdP proposed the GdP deal as part of a restructuring of the whole Portuguese energy sector planned by the country's previous government.

The new government is yet

to publish its strategy for the sector but prime minister has already taken steps to intensify the competition.

Some reports claim that the government wants to strengthen Galp Energia, current owner of GdP, so that it can compete with EdP in the

gas and electricity businesses.

Meanwhile, EdP has already taken steps to find alternative ways to enlarge its gas business, including a recent agreement to raise its stake in Portgas, the country's second largest natural gas distributor to 72 percent.

## Fortis buys 3% stake in Portugal's BCP bank

Belgian-Dutch Fortis Bank announced on September 22 that it acquired a 3 percent stake in Banco Comercial Portugues (BCP), Portugal's leading listed financial group for a total consideration of 224 million Euro. This brings Fortis' total equity interests in BCP to 4.99 percent. Portugal Post reported.

Herman Verwilt, Fortis Bank's CEO and Fortis' deputy CEO, said the increase of Fortis' stake in BCP is a logical step that binds the partnership between Fortis and BCP and

reinforces its commitment to working with BCP together and exploring new opportunities. He recalled that Fortis and BCP have been strong partners since the already successful Millenniumbcf Fortis joint venture was set up in 2004.

Paulo Teixeira Pinto, BCP's chairman and CEO, said: "BCP welcomes the presence of Fortis as a relevant strategic shareholder. Fortis' acquisition of a significant interest in BCP has been considered since the start of our partnership in Millenniumbcf Fortis, our joint venture

in Portuguese bancassurance activities.

This was the right time and opportunity to realise it, and both BCP and Fortis, as market leaders in their respective home countries, see this as a very positive step, opening further prospects of enhancing cooperation between our two institutions and of considering other business areas of common interest."

This acquisition will have no material impact on Fortis' net profit per share. BCP is Portugal's leading listed financial

group, with total assets of 74.6 billion Euro, net income of 513 million Euro in 2004 and 325 million Euro in the first half of the year.

It is market leader in life insurance, investment funds, factoring, leasing and retail brokerage whereas Fortis is an integrated financial services provider active in the fields of banking and insurance.

With a market capitalisation of 30.1 billion Euro and around 55,000 employees, Fortis ranks among the top 20 European financial institutions.

## TAP Portugal, OnAir to test personal cell phones

A Geneva-based technology firm recently announced that two European airlines, TAP Portugal and British carrier BMI will allow passengers to use their own cell phones on commercial flights within west-

ern Europe in 2006.

According to Portugal Post, both companies are ready to introduce OnAir's voice and text service for cell phones in separate three-month trial runs.

OnAir's system will be used by TAP on its Airbus 321 model and by bmi on its Airbus 320s, both single-aisle planes primarily used for traffic within western Europe.

Users of mobile phones

and other handheld wireless devices with roaming capability will be able to make and receive calls using a base station within the airplane. TAP, Portugal's state-owned airline, flies to 43 destinations in 25 countries.

## Global tourism body chooses Portugal for celebration

The World Tourism Organisation (WTO) selected Portugal this year for the focus of the commemorations for World Tourism Day marked on September 27. This decision of WTO was welcomed by the Associacao dos Hoteis Em-

preendimentos Turisticos do Algarve (AHETA), the Algarve hotels and resorts association, Portugal Post reported. WTO's decision will highlight Portugal and provide greater economic importance to the country's tourism activities in a national

context.

In earlier years, AHETA encourages all its members to offer extra special attention to clients and tourists on World Tourism Day (September 27), many of which will be putting on special events and entertain-

ment programmes.

It has been reported that Algarve, Portugal's largest region for tourism has contributed to the country's wealth. The theme chosen by the WTO this year is "Tourism, a Provider of Wealth."

# NBG H1 net profit up 62%, 28% return on equity

The results for the first half of 2005 serve to reaffirm the capacity of the National Bank of Greece (NBG) Group to improve its efficiency and meet the challenges of the times effectively, even under adverse conditions. Despite the impact of the banking sector strike in June, growth remained dynamic and the group's profitability rose strongly, the bank said in a press release last Thursday.

The very substantial growth in profits in the first half reflects the sustained effort that "has gone into building up our core revenue sources and systematic efforts to contain operating costs, particularly administrative expenses. At the same time, wage-bill increases in 2005 were offset by the impact of the voluntary retirement programme of the previous year. This excellent performance drove the group's return on equity to a record high of 28 percent," the bank said.

The group is in the process of changing its structure. Accordingly, National Investment Company and National Real Estate are currently in process of merging with National Bank, while the international tender to appoint a specialised operator for the group's hotel units has got off to a good start, with a view to better utilising its assets in Astir Palace Vouliagmenis.

"In view of these results, as well as the encouraging progress in implementing our strategy, we are confident that our performance for the rest of the year will be no less upbeat," the press release read.

The increase in the group's core revenues is attributable primarily to rising inter-



Off hours at a National Bank of Greece in Syntagma square branch

est income. Specifically, group net interest income totalled approximately 803 million Euro, up 15.3 percent year-on-year, on the back of substantial expansion in retail lending in Greece and SE Europe. For instance, group retail loan balances stood at 16.5 billion Euro at the end of the first half, up 26 percent year-on-year.

## Cost containment on course

The organisational and operational restructuring of the group is a key tenet of NBG's 3-year business plan. Ongoing efforts in cost containment are already beginning to yield results. The positive developments in containing operating expenses during the first half of 2005 continued in the second quarter. As a result, operating expenditure in the first half was down by 3.6 percent year-on-year. This trend is underpinned by the anticipated reduction in staff costs following last year's voluntary retirement programme and the continued cost control, particularly in general and administrative expenses, which were slashed by 6.4 percent.

## Expanding in SE Europe

The group's loan book in Southeast Europe reported brisk growth of 59 percent on an annual basis, totalling 1.7 billion Euro. Retail lending led the way, posting growth of 128 percent year-on-year. The strong performance in lending business, particularly retail lending, fuelled a sharp improvement in interest income and commissions in the first half, by 48 percent and 29 percent respectively. Profit before tax soared to 43 million Euro, representing 10 percent of total group profit.

## High yield assets

Savings and sight deposits grew by 8 percent in the first half to 32.2 billion Euro. Given the growing importance of these deposits, as well as the general market trend in this segment, this development is seen as particularly encouraging, the press release read.

Overall, the deposits grew 5.3 percent during the first half of 2005, reaching 43 billion Euro. Growth in total deposits, however, lags behind growth in

savings and sight deposits, affected by the decline in the repos market, an industry-wide trend. One of management's key strategic objectives is to strengthen the group's position in the mutual fund market, and particularly in fee rich non-money market funds. Group initiatives in this front led to impressive gains in fixed-income, mixed and equity funds by 5 percentage points, with the result that the group's market share had topped 16 percent at the end of August, the statement read.

## Strengthening capital base

The group's capital base strengthened yet further in the first half. The group's core Tier-I capital adequacy ratio is estimated to 8.5 percent, up 50bps since the beginning of the year. Likewise, the total capital adequacy ratio (Tier-I and Tier-II) stood at 15.7 percent at the end of June. The strong capital base represents a strategic advantage for the Group supporting continued growth in Greece and the wider region of South-eastern Europe, the press release read.

## Recreational scuba-diving bill

A merchant marine ministry draft bill lifting restrictions on recreational scuba-diving was passed in principle by both Greek main parties last Wednesday, during a parliamentary committee discussion, ANA reported. MPs stressed that the new laws would help make Greece one of the most popular worldwide destinations for scuba-diving holidays and bring in significant revenue. The Communist party of Greece (KKE) and the Coalition of the Left, Movements and Ecology party expressed reservations about whether the new laws adequately protected submerged archaeological remains, however. In past years, recreational diving was strictly restricted in Greece in order to deter antiquities smugglers, with diving only permitted in specific, closely-watched locations. Merchant Marine Minister Manolis Kefaloyiannis stressed that all measures in the bill were fully harmonised with community law and aimed to allow full exploitation of the favourable weather conditions prevailing in Greece for the greater part of the year, as well as its natural, historic and cultural attractions, to draw the recreational diving sector. The minister also announced that he intends to table an amendment for the subsidisation of insurance contributions paid by staff on cruise ships and another one obliging ships to have a doctor on board.

## PM and interior minister confer on local elections law

Greek Prime minister Costas Karamanlis met last Thursday with Interior, Public Administration and Decentralisation Minister Prokopis Pavlopoulos. Pavlopoulos told reporters after the meeting that two decisions had been taken, one concerning the electoral law vis-a-vis the election of prefects and mayors from the first Sunday of elections, and the second concerning the working hours of civil services. Elaborating, Pavlopoulos said the government would propose the election of a mayor or prefect from the first Sunday — first round — of elections provided a candidate received 42 percent of the vote. Currently, if one candidate does not receive an absolute majority of 50 percent plus one vote in the first round, a run-off election is held the following Sunday between the top two candidates. ANA quoted the minister as saying all the other provisions and details of the new law would be presented in the draft being advanced by the government, and would be put to public dialogue. Regarding the working hours of the public sector, Pavlopoulos said the government proposed to ADEDY — the Civil Servants' Supreme Administrative Council — uniform operating hours — from 8:00 a.m. to 3:30 p.m. in the summer months and from 8:30 a.m. to 4:00 p.m. in the winter months — so as to accommodate the citizens and ensure smooth operation in cooperation with the related services of the rest of the EU member states and Brussels (the EU headquarters).

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## Greece's role as energy channel

Greek Development Minister Dimitris Sioufas said in Washington last Wednesday that he discussed Greece's role as a regional energy channel with the US deputy secretary of energy, Clay Sell.

"We analysed the rise in the country's status in energy affairs, especially major pipeline networks underway in our country - natural gas and oil - and especially the Greek-Turkish and Greek-Italian natural gas pipelines, and the Burgas-Alexandroupolis oil pipeline," Sioufas said.

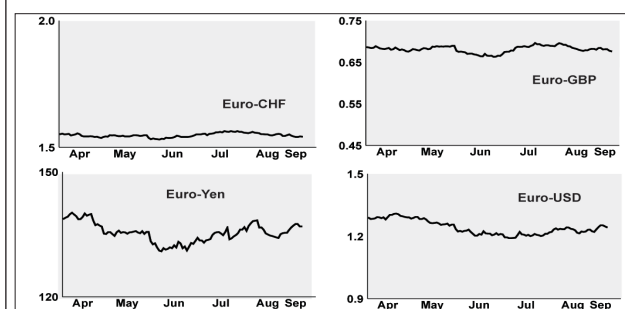
In an interview to ERT, Greece's state radio and television broadcaster, the minister said another

item on the agenda for talks was the creation on October 25 in Athens of a southeast European energy community.

"This is one of the most important conventions to be signed in Greece on energy matters for the entire region, and Greece's decisive role in this," he noted.

The talks with Sell also covered bilateral cooperation and discussion of the global rise in oil prices. "All we can do is to seek support from the public, ask the public to join the energy-saving effort," the minister said.

## Euro Daily Fixing Rates



	USD	YEN	GBP	CHF
26/09/2005	1.216	136.50	0.686	1.576
27/09/2005	1.217	136.76	0.687	1.575
28/09/2005	1.218	137.64	0.689	1.574
29/09/2005	1.220	137.48	0.691	1.576
30/09/2005	1.220	137.48	0.691	1.576

### ALPHA BANK

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**OCCUPIED TERRITORY****No direct flights from Georgia**

Georgia last week reassured the Cypriot government that there was no intention to carry out direct flights to the Turkish-occupied north of the island, a statement from the Cypriot ministry of foreign affairs revealed. "Following representations towards the government of Georgia in connection with reports over the country's readiness to allow and encourage direct flights to the illegal regime, a written assurance from the embassy of Georgia has been received that neither the government of Georgia nor any airline in the country intend to conduct such flights," the foreign ministry said in the statement. Cyprus has been divided since 1974, when Turkish troops occupied the island's northern third.

**Morgan Stanley boosts BoC stake**

Morgan Stanley recently increased its stake in Bank of Cyprus by a further 2.26 million shares to a total of 6 million shares and together with a new German investor were the principle players helping the rally on the BoC shares, Financial Mirror reported last week. Since the BoC shares broke through the 3.44 Euro or CYP 1.97 level, they rallied by 28 percent in recent weeks to a record high of 4.18 Euro or CYP 2.40 in Greece on the back of major institutional purchases by mostly foreign funds. Morgan Stanley was evidently one of the most aggressive players, but there were also "others" according to the FM report.

**Aid programme for Palestine**

The Cypriot Foreign Ministry last Wednesday announced the launch of a "Programme of Help" for the Palestinian Authority, with the arrival in Cyprus of 21 Palestinian senior police officers, who were to attend a training seminar at the Police Academy for four weeks. The Programme of Help, approved by the Cabinet last August, would continue in November with another training seminar for other 21 Palestinian senior police officers and in December with a training seminar for 21 Palestinian senior civil servants, a foreign ministry release revealed.

**Nicosia aims to satisfy travellers**

Cypriot Commerce, Industry and Tourism Minister George Lillikas last week claimed that the government aims to satisfy fully travellers to the island, ensure good organisation of the tourist product and upgrade the services offered, adding that improved domestic infrastructure would help towards this goal. Speaking at a dinner hosted by the Cyprus Tourism Organisation on the occasion of the World Tourism Day 2005, attended by President Tassos Papadopoulos, Lillikas announced that a new package of measures for tourism would be unveiled in October "which can be applied by the business world."

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**Europe for Cyprus****Panel calls on parliament to endorse idea of constitutional convention**

The International Expert Panel (IEP) last week announced the official publication of its study "A principled basis for a just and lasting Cyprus settlement in the light of international and European law." The eight-member panel is composed of university professors from seven countries.

The study was sent to all heads of European Union member state governments, leading EU institutional actors, the United Nations and Cypriot political leaders. The IEP was convened by the Committee for a European Solution in Cyprus, which aims to encourage the development of a just and lasting settlement in Cyprus.

The IEP believes in a proposal to promote a just Cyprus settlement, leaving behind all previous "plans" submitted to the Cyprus people by foreign entities, especially the plan rejected in the April 2004 referendum. Seventy-six of the voters in Cyprus said no to the plan.

The panel calls on the Parliament to adopt a resolution that reaffirms the fundamental principles that must guide those



*Elmar Brok will be present at the event*

involved in the seeking of a Cyprus settlement, and endorsing the idea of a constitutional convention for Cyprus.

The official presentation of the study in Brussels will be held at the reception-dinner "Europe for Cyprus" at the European Parliament on October 12. Elmar Brok, chairman of the Committee on Foreign

Affairs at the European Parliament, will give an introductory speech.

Just before the reception-dinner, the Committee for a European Solution in Cyprus will talk to the press at the Parliament whereby members of the European and international press will be addressed from both the IEP and the commit-

tee. Closing the event, the committee cordially invites political leaders, European officials, media personnel and members of the Cypriot communities to Le Residence Palace in Brussels to attend a theatrical performance of "Lyssistrata," directed by Michael Cacoyannis, who directed "Zorba the Greek."

**Papadopoulos on the return of Varosha**

Cypriot President Tassos Papadopoulos reiterated last Thursday his proposal for the return of the enclosed city of Varosha in Cyprus Turkish occupied area to its lawful owners, as "a tangible step that would significantly contribute to the crystallisation of trust between the two communities" on the island.

Papadopoulos was receiving the credentials of Panama's new Ambassador to Cyprus based in Athens Antonio Fotis Taquis, who assured that his country will always support the Republic of Cyprus' efforts to reunify the island.

"Our main concern is to reach a just, viable and func-

tional solution, a solution that would respect the UN resolutions and that would comply with EU values and principles," Taquis said, adding that "most importantly the solution should represent the free and sovereign will of the people."

He added that he would endeavour to create an open channel of communication between Cyprus and Panama. "Our intention is to work energetically for the further enhancement of our bilateral relations."

For his part, Papadopoulos pointed out that a major common element between the two countries' economies is the merchant shipping industry,

"which makes Cyprus and Panama important players in world transport."

"This is an area where both bilaterally and multilaterally the two countries can strengthen their cooperation," he said. Referring to the Cyprus problem, Papadopoulos reiterated his commitment to a solution of a bizonal, bicomunal federation that will bring about the reunification of the country and its people.

"We remain committed to working constructively for such a solution that will serve the legitimate interests of the people of Cyprus as a whole," he added, noting that Cyprus approaches positively "all

developments that may enable the settlement of the problem, including the European aspirations of Turkey."

"However it becomes more and more evident that Turkey does not opt for a similarly constructive stance," the president said, adding that "Turkey's ultimate objective is clearly not the reunification of Cyprus, but the setting up of two separate states."

Papadopoulos also noted in this context the supports rendered by the Cypriot government for the economic development of the Turkish Cypriot community, "always within national and European legality."

**Turkey should lift embargo on Cyprus ship**

Turkey, an EU candidate country, should lift its embargo against Cypriot flagged vessels and thus fully implement the Customs Union Protocol it already signed late July, CNA reported last week. This was underlined at a press conference last week marking the closing of this year's "Maritime Cyprus 2005" Conference that took place in the coastal town of Limassol with the participation of European Union top officials and 800 delegates from

35 countries.

Cyprus Shipping Council President Andreas Drousiotis expressed hope that Turkey would lift its embargo against Cypriot ships and airplanes by March 2006 and reiterated the comment of the Vice President of the European Commission, Commissioner for Transport and Energy, Jacques Barrot, who in his address at the conference noted that Turkey "has been warned to resolve the issue by 2006."

Drousiotis added that the Cyprus Shipping Council informed in written various international organisations on the Turkish embargo, noting that the issue concerns Cyprus and the EU as a whole. "We have discussed the matter with the government. We clarified that the lifting the Turkish embargo against Cypriot ships and airplanes is urgent and very serious. The lifting would be for the benefit of the Cypriot maritime and economy as well," he

noted. Director of the Cypriot Department of Merchant Shipping Sergios Sergiou said the government had made representations to various European Commission services and expressed hope that the issue would be included in the EU - Turkey negotiating framework. "There are plans for next year, the government is making efforts to appoint people in various countries, to promote the registration of ships under Cypriot flag," Sergiou said.

# Law and Justice puts up Marcinkiewicz as premier

In a surprise move, Poland's right-wing Law and Justice party (PiS) last Tuesday proposed Kazimierz Marcinkiewicz as prime minister, Deutsche Presse-Agentur (dpa) reported. The party won a narrow victory in last Sunday's parliamentary elections, polling 26.99 percent or 155 seats ahead of the rival liberal Civic Platform (PO), which won 24.14 percent support for 133 seats.

PiS leader Jaroslaw Kaczynski, 56, who himself had been tipped for prime minister, proposed fellow party member Marcinkiewicz, 45, current head of the Parliament's State Treasury Committee, for the office.

The move comes apparently as a gesture by Jaroslaw to back down from the premier's post in order to boost his twin brother Lech's chances of winning Poland's October 9 presidential election. "It's not my job to make it easy for Donald Tusk to win the presidential election," Jaroslaw Kaczynski was quoted as saying.

Lech Kaczynski has consistently polled roughly 10 percent behind his chief rival PO leader Donald Tusk, who holds some 45 percent support.

Tusk expressed "surprise" at the "strange decision" for PiS party leader Kaczynski to back away from the prime minister-ship, but said last Tuesday evening his party was prepared to push ahead with coalition talks. "I take full responsibility for preparing these people and for the quality of government," Tusk said, adding he hoped the government would be formed both quickly and in a transparent fashion.

Tusk also warned that the choice of Marcinkiewicz could remind Poles of the highly controversial move of the right-wing AWS Solidarity action, which after its 1997 victory named Jerzy Buzek prime minister while AWS leader Marian Krzaklewski was seen as calling the shots from behind-the-scenes.

The AWS was voted out of parliament in 2001 in the wake of a landslide victory by the ex-



The leaders of election-winning Law and Justice party (PiS) Jaroslaw Kaczynski (R) and Kazimierz Marcinkiewicz (L) shake hands during press conference in Warsaw, September 27, 2005

## Six parties enter parliament

Six parties, including conservatives, liberals populists, left-wingers and agrarians, will enter the Polish parliament following Poland's general election last Sunday, according to full official returns issued by Poland's State Elections Commission (PKW) last Tuesday.

The right-wing Law and Justice party (PiS) took 26.99 percent and a narrow victory in ballot ahead of the liberal Civic Platform (PO) which polled 24.14 percent. The two parties, both with their political roots in the 1980s' Solidarity anti-communist opposition, last week vowed talks on forming a coalition government.

The future coalition will take a majority of the 460 seats in the Sejm, or lower house of

parliament. The PKW was expected to issue official seat tallies and voter turnout last Tuesday evening. Third place was taken by the populist Samoobrona, or Self-Defence, farmers' party with 11.41 percent of the vote.

Despite losing power, the ex-communist Democratic Left Alliance (SLD) polled 11.31 percent of the ballot. Pre-election polls had shown the party teetering on the 5 percent threshold required to enter parliament.

The Catholic-nationalist League of Polish Families (LPR) took 7.97 percent of the vote while the agrarian Polish Peasants' Party (PSL) scored 6.96 percent.

The remaining parties failed to jump the 5 percent hurdle required to enter parliament.

communist SLD. Marcinkiewicz said last Tuesday he intended to begin talks with the PO last Wednesday on a possible coalition government which could command a majority of 288 seats in the 460-seat Sejm. Earlier Tuesday, he also announced the PiS intended to rewrite the 2006 draft budget which he slammed as a "budget of stagnation."

Outgoing Prime Minister Marek Belka, the economy professor who oversaw its creation, has defended the budget as

"cautious" and "realistic." PiS has promised to cut public spending by streamlining Poland's bloated public administration, but also campaigned on a generous social welfare programme which put it at odds with the more liberal and fiscally restrained PO.

Analysts believe economic policy will prove a sticking-point for the two groups in coalition talks, despite having common political roots in the 1980s Solidarity anti-communist position. In 1999-2000, Mar-

cinkiewicz was a the chief advisor to AWS Prime Minister Jerzy Buzek's, just ahead of the 2001 AWS election disaster. From 1992-1993 he served as deputy minister of education in the government of Prime Minister Hanna Suckocka.

Known for his strident right-wing views, between 1989-2001 Marcinkiewicz was a member of the now defunct rightist Christian National Union (ZChN), an ultra-conservative Catholic-nationalist group.

## Legg Mason eyes Polish funds

According to the daily Parkiet, Bank Handlowy (BH) received three bids for its investment funds TFI and Handlowy Zarzadzanie Aktywami, WBJ reported on September 26. A decision concerning the sale of its shares could be made during the next session of bank's supervisory board on October 6. It follows disposal of similar units by the parent company of BH Citigroup to Legg Mason. This company is also one of the three bidders for the investment assets of BH. "We will not comment on this information," said Jeffrey Bukowski from Legg Mason's press office.

## 100,000 Unipetrol shareholders lose

Czech opposition party ODS believes that former Polish Prime Minister Marek Belka, as well as several other Polish politicians, acted to the detriment of the shareholders of Unipetrol during the privatisation of the concern, WBJ reported last Monday. The party's deputy head, Ivan Langer, based his conclusions after examining the official report of a meeting between Marek Belka and Zdenek Dolezel, who at that time was the head of the Czech PM Jiri Paroubek's cabinet. Langer reportedly believes that former Treasury Minister Jacek Socha and the head of Orlen's supervisory board, Jacek Bartkiewicz, are also guilty of certain irregularities.

## Barlinek aims for top spot

Polish wooden floorboards maker Barlinek debuted on the bourse on September 22, 13.7 percent above the par value, WBJ reported. "Investors who own shares in the company have already achieved good returns on this transaction in the short-run. We believe that real growth in the future is only ahead of us," said Ryszard Czerwinski, deputy president of DM BZ WBK. Barlinek's attractiveness is mostly based on its ambitious investment programme, which should allow substantial growth of financial results. The company envisages net profit of 33.3 million zlotys in 2005, but the figure should increase to 85.1 million zlotys in 2007.

## Swarzedz hopes to stay alive

Polish listed furniture maker Swarzedz hopes that a 34.6 million zloty share issue will allow it to pay off debts and invest so as to avoid bankruptcy, Swarzedz's new CEO Jaroslaw Krol told a press conference last Monday, cited by Interfax. Swarzedz, which recorded a net loss of nearly 4.16 million zlotys on revenues of 11.87 million after the first half of 2005, hopes that the company's sixth share issue will allow it to pay back 24.6 million zlotys of a debt of nearly 34 million zlotys at the end of October. The remaining 10 million zlotys will go towards investments aimed at boosting revenues and market share.

## Retail sales exceed estimates

According to Poland's Central Statistical Office (GUS), growth of retail sales in August was 7.9 percent higher than in July and far more than expected by analysts, WBJ reported recently. "Last month we observed deterioration of dynamics of real wages, which was accompanied by growing inflation. Moreover there was no substantial increase in the level of indebtedness of households resulting from mortgage loans. This means that the only reason for growing sales were one-off social benefits," said Wojciech Kurylek, chief economist with KB. He went on to say that this data should be disregarded by the Monetary Policy Council (RPP). Halina Dmochowska, deputy president of GUS, believes economic growth in the third quarter this year will be slightly faster than in the second quarter when it amounted to 2.8 percent.

## Bombardier travels to Mazowsze

Bombardier Transportation has cautiously decided to open a factory for local trains in Mazowsze, WBJ reported recently. "It was difficult to convince the company's management to choose this region. We already have a plant in Wroclaw, but it was unused for 10 years and re-launching production would be similar to opening a new facility," said Karol Romanowski, who is responsible for the Polish branch of Bombardier, which is headquartered in Canada. The investment has its conditions, however. "One cannot seriously consider the domestic market if he does not plan to produce here. However, it is impossible to plan investments, if it remains unknown whether the plant will have orders," said Romanowski. So far the investor has not taken a decision concerning investment outlays or planned employment. The company decided to locate the plant in Mazowsze, as it was the first region in Poland that organised a number of tenders for the replacement and modernisation of its trains.

## Economists doubt coalition backing ERM-2 reform

According to economists in Poland, the decision to enter the ERM-2 foreign exchange mechanism may be taken as late as 2009, which might result in Poland being accepted in to the Eurozone in 2012, WBJ reported on September 26.

"A coalition of Civic Platform (PO) and Law and

Justice (PiS) will not take responsibility for carrying out the requirements of ERM-2 in the short-run," said Tomasz Zdyb, an analyst with Pekao.

In order to enter the ERM-2 mechanism the country would have to meet the criteria of convergence, which in Poland's case would require

strict discipline in terms of public finances.

The criteria include maintaining the budget deficit at three percent and public debt at the level of below 60 percent of the GDP, which would result in limiting social contributions.

If the decision about enter-

ing the ERM-2 is not made within two years, then the whole process is likely to be shifted until after the following parliamentary elections.

"No coalition will limit expenditures before the elections," Piotr Kuczynski, an analyst with DM WGI, was quoted as saying.

## Spanish firm set for Szentgotthard

Spanish metal processor Metasint-Fersint is to establish a new production hall in the industrial park of the Western Hungarian town of Szentgotthard, BBJ reported on September 25. According to town mayor Tibor Viniczay, the international company is to spend HUF 2 billion on the development of the car-part production facility in the first 5 years of operation. The first phase of the construction is expected to start this year, and production is to start next summer with the first 20 employees.

## MOL hopeful to boost INA stake

MOL Rt chief executive Gyorgy Mosonyi said on September 22 that MOL was both determined and hopeful that it can boost its stake in Croatian INA, BBJ reported on September 25. He added that MOL had good relations with the Croatian government, which supports MOL in its efforts to obtain further stakes in the state-owned Croatian oil company. MOL would be able to finance the purchase through a syndicated loan it has agreed on recently, he said. The Hungarian oil and gas group acquired a 25 percent stake in INA for USD 505 million in 2003.

## Unemployment rate reaches 7.2%

Hungary's average rate of unemployment was 7.2 percent in June-August this year, up from 7.1 percent in May-July and up 1.3 percentage points from the same period a year earlier, BBJ reported last Monday, citing figures released by the Central Statistics Office (KSH). The jobless rate has varied between 7.1 percent and 7.2 percent, its highest rate recorded since the start of 2003, in each three-month period since January-March this year. The number of unemployed has changed little since the start of the year while the number of employed increased each month by a total of 46,400 since the first quarter this year, partly due to seasonal factors, KSH said.

## Drugmakers to pay HUF 20 bln

Hungary's drugmakers and drug distributors agreed at a meeting with government officials on September 23 to pay HUF 20 billion this year and HUF 22.5 billion next year into the state's social insurance fund in order to make up for a shortfall in the National Health Fund (OET), BBJ reported on September 26. The drugmakers and distributors could decide to divide the amount among them based on increases in turnover or the number of products each company has in the market, Health Minister Jenő Rácz said after the meeting.

## Richter invests in Ukraine

Gedeon Richter Rt, Hungary's biggest drugmaker, has invested USD six million into a packaging facility in Kiev, in the Ukraine, which will start production next year, BBJ reported on September 26. Drugs produced in Hungary will be packaged in the Ukrainian factory, CEO Erik Bogesch said. The facility is considered a long-term investment by the drug-maker, according to the CEO. Richter's fourth largest export market is the Ukraine; during the first half of this year, the company sold drugs worth USD11 million in the neighbouring country.

## Hungary to cut spending in 2006

Hungary's government plans to cut spending by HUF 150 billion next year, taking more than half of the sum out of the budgets of local municipalities, BBJ reported last Monday. Prime Minister Ferenc Gyurcsány's cabinet last Sunday approved the version of the budget that it will submit to parliament on September 30, according to a newspaper. The government must wait for a report by the European Union on the accounting of motorway costs before it publishes the planned deficit. Hungary's budget deficit this year will breach the government's target for a fourth consecutive year, drawing criticism from the EU. The country has to meet conditions to adopt the Euro, including squeezing budget deficits to less than three percent of gross domestic product.

## Employees claim Wal-Mart moving in

The world's largest retailer, Wal-Mart, will buy Hungary's Cora-branded hypermarket chain by the beginning of October, after examining the purchase for months, employees said, The Budapest Times reported on September 26, citing anonymous Hungarian workers at the Cora chain. The US-based retailer said in June that it was interested in entering markets in the region, including Hungary, Poland and Russia. The Hungarian Cora chain belongs indirectly to the Belgian Delhaize group.

# Hungary to destroy old shoulder-fired missiles

Hungary last Tuesday signed an agreement with the US ambassador to destroy its stockpile of old shoulder-fired missiles to prevent them falling into the hands of terrorists, Deutsche Presse-Agentur (dpa) reported. "These missiles' warranties have expired. While they are excess material for us, they are a delicacy for terrorists," Defence Minister Ferenc Juhász said.

Under the terms of the agreement, Hungary will dismantle 1,540 man-portable air defence systems (MANPADS) at a cost of 1.42 million Euro (USD 1.7 million), Juhász said.

The US is keen to eliminate unwanted MANPADS, which can be used to down commercial aircraft, as part of its war on terror and will shoulder 250,000 Euro of the cost of putting the Hungarian stockpile beyond use.

"In the hands of terrorists, these missiles have caused 25 plane crashes and 600 deaths since the 1970s. Today is a significant occasion," Ambassador George Herbert Walker said at the signing ceremony.

Some observers criticised spending such a significant amount of money at a time when Hungary has to tighten its

belt in face of a huge budget deficit, particularly as the weapons are securely guarded in a military facility.

Juhász, however, insisted the cost was justified. "It's true they are securely stored, but this is also sending out a message to other countries that old weapons should be destroyed."

Terrorism expert and Executive Director of the Institute for Transitional Democracy and International Security Sebestyén Gorka agreed with the minister.

"As long as the missiles are in existence there is a danger that a criminal element could

steal them or someone could be corrupted. It's safer to destroy them," he said. "However, from an analytical point of view I would question why it costs so much to destroy them."

The highest-profile incident involving a MANPAD attack in recent years came in November 2002, when terrorists fired two missiles at an Israeli Boeing 757 with 271 passengers and crew as it took off from Mombasa, Kenya.

Both missiles missed. MANPADS can hit aircraft flying at altitudes of up to 4,572 metres at a range of up to 4.82 kilometres.

## Eurostat says deficit rise due to extra civil servant wages

European statistics agency Eurostat said last Monday that Hungary's 2004 deficit was 5.4 percent of gross domestic product (GDP), an increase on the agency's March estimate of 4.5 percent, Deutsche Presse-Agentur (dpa) reported.

"The increase of the government deficit in 2004 is mainly due to the recording of the 13th month salary of govern-

ment employees in 2004," Eurostat said in a press release. These deficit figures include a correction for private pension payments, which Eurostat said Hungary could use until 2007.

This correction accounted for a 1.1 percent improvement in the 2004 deficit, Eurostat said.

Hungary also look likely to exceed their 2005 deficit target

of 3.6 percent, as Eurostat looks set to force the new European Union member to account for a public-private partnership deal for motorway construction that analysts say will add 1.1 to 2 percent to the deficit.

Government spokesman András Batiz said Eurostat's decision means that the 2005 budget deficit will need to be revised upward, while Finance

Minister János Veres told daily newspaper Napi Gazdaság that Hungary would not meet the 2006 deficit target of 2.9 percent.

Eurostat was expected to announce its decision officially late last Monday afternoon.

Hungary was one of eight Central and Eastern European nations to become EU members in May 2004.

## Pig farmers welcome new slaughterhouse

Hungarian meat processors are questioning plans to build a HUF 25 billion (approx 102 million Euro) slaughterhouse with state funding, while pig farmers welcome the initiative, which would give them more control over prices, a business daily reported on September

26. Meat producers said there is capacity for slaughtering seven million pigs a year in Hungary at present, yet only about four million pigs are slaughtered each year, leaving room for growth, Világújság said. Based on this figure, they argue the new slaughterhouse is

unnecessary.

László Menczel of the Association of Hungarian Meat Processors said the new slaughterhouse could trigger a price war between farmers and processors. She said the funds should be used for marketing instead to ease the anomalies in

the Hungarian market.

However, pig farmers welcome the idea of having their own slaughterhouse and not depending on processors, who are known for setting prices wantonly.

They are willing to put up some of the costs as well.

The privatisation of Budapest Airport, the company that runs Hungary's Ferihegy international airport, has been ruled illegal by the Supreme Court, Deutsche Presse-Agentur (dpa) reported on September 23, citing a daily newspaper. The court ruled on the privatisation on September 22 but refused to reveal its decision immediately. The Magyar Nemzet newspaper, however, claimed that sources inside the court said that the privatisation has been declared illegal. The State Privatisation Agency (APV) last month announced a shortlist of five bidders for the company. APV received a maximum bid of 1.59 billion Euro (USD 1.95 billion) for the asset, and expects the final price to be higher. Britain's BAA, Germany's Fraport AG and Australia's Macquarie are amongst the short-listed bidders.



The world record of belly dancing is set up at the Pech University of Sciences, (PUS) in Pecs, Hungary, September 26, 2005. Four hundred and twenty-five people, former and present students of the eurhythmics course of PUS called the Dancing University performed this oriental dance for five minutes to set up a world record in this new category of the Guinness Book of World Records

# Bulgaria seeks Czech help for railway restructuring

Czech firms are most welcome to help reconstruct and revamp the railroad network in Bulgaria, damaged by floods earlier this year, Bulgarian President Georgi Parvanov told reporters last Monday after a meeting with his Czech counterpart Vaclav Klaus, CTK said in a report.

Bulgaria was hit by four waves of severe floods which destroyed a large part of its vital infrastructure, the report said.

Parvanov and Klaus were quoted as saying that they both believed that the volume of trade between the Czech Republic and Bulgaria would continue to grow.

Czech-Bulgarian political relations and economic activities became less intense after a change in the then-Czechoslovakia's political regime in 1989, according to CTK.

The Czech Republic traded mainly with Western European countries and the US in the years following the changeover, the report added.

Foreign trade and econom-



Bulgaria's President Georgi Parvanov (R) is accompanied by his Czech counterpart Vaclav Klaus as he reviews the guard of honour on his arrival for talks at Prague Castle, September 26, 2005

ic cooperation between the two countries have seen a boost in recent months. Last year Czech power producer CEZ and the Bulgarian government signed an agreement on a takeover of three Bulgarian power distribu-

tors. The acquisition worth around 8.9 billion Czech crowns was the largest investment in the history of the Czech Republic and a major event in Czech-Bulgarian economic relations, according to

the report.

Parvanov was quoted as saying he hoped Czech companies would take part in tenders to sell Bulgaria's state-run thermal and hydroelectric power plants.

## Paroubek wants to tighten rules for foreign builders

Czech Prime Minister Jiri Paroubek has announced that the Czech Republic should introduce administrative barriers to make access to the Czech market more difficult for foreign builders, Prague Monitor reported last Monday.

Czech construction companies trying to enter EU markets have to cope with additional tax and personnel problems, Paroubek said at a seminar. He added that he wanted to set up a ministerial commission to deal with the problem.

"I think we must behave in the same way, that is, pose administrative obstacles. At least until the other side understands we also want to get into the market," said Paroubek.

"If are going to liberalise, then let us liberalise throughout Europe or at least in our neighbourhood," he added. Changes to Czech legislation could also include tax adjustments, Paroubek said.

He added Czech builders had big problems taking their staff to foreign markets.

Vaclav Matyas, head of the Association of Building Entrepreneurs, recently complained about difficult access to the EU market.

Pointing at Germany as an example, Matyas said Czech builders could only act as sub-contractors for German companies and had to get work permits for their staff in this country. The work of Czech companies abroad accounts for about 1.5 percent of Czech construction output, which amounted to 330 billion Czech crowns last

year.

If the protective measures were lifted, the share would grow to 3-5 percent, the association said.

Czech building output grew 9.7 percent in 2004 after 8.9 percent growth a year earlier. Experts said the sector would grow by 5-6 percent this year. Building output has been growing non-stop for five years.

Matyas added that foreign construction companies increasingly placed bids for Czech public orders.

## ODS proposes cutting VAT on fuel and energy

The Civic Democratic party (ODS) has submitted to the Chamber of Deputies a proposal for a cut in value-added tax (VAT) on fuels, gas and electricity from 19 to 15 percent, party head Jiri Sezemsky said, Prague Monitor reported on September 26. The growth in

the prices of fuels and energies has raised the costs of households, businesses and other entities, Sezemsky said. The ODS is convinced that, given the growth in the prices of fuels and energies, state budget revenues from VAT will not fall.

On September 21, the ODS

proposed a cut in excise duty on petrol by 1.30 Czech crowns a litre and on diesel by 0.40 crowns a litre. The ODS has proposed the cut in the excise duty as part of an amended law on alcohol. The chamber will vote on the amendment probably at its meeting in October.

Finance Minister Bohuslav Sobotka said in early September that a cut in this excise duty would significantly widen the state budget gap. If the excise tax fell by two crowns a litre, state budget revenues would decrease by 13 billion crowns, he said.

## Retirement home for artists

Actors, painters and other artists should spend their golden years together in a special retirement home, according to the Czech culture minister last week. "Unlike a teacher, an artist doesn't have to leave for retirement at 62 but can work for a lifetime," Culture Minister Vitezslav Jandak told Czech media. Jandak suggested opening a national home for retired artists in Prague similar to the old-folks home for military veterans, but with special facilities for self-expression. "The conditions in this home could allow residents to create for others," Jandak said.

## McDonald's sees stronger sales

Fast-food chain McDonald's expects sales in the Czech Republic to grow five percent to 2.25 billion Czech crowns this year, spokeswoman Drahomira Jirakova said, cited by Prague Monitor on September 26. The company runs 71 restaurants in the country and plans to open one more in Prague this year. In the years to come, the year-on-year growth of the company should hover around five percent, a slowdown from previous years when it was opening more new restaurants. The firm plans to launch two to three new restaurants a year in the following years. In the first half, McDonald's sales in the Czech Republic amounted to 1.084 billion crowns, a year-on-year increase of 4.7 percent, with one restaurant opened in Prague.

## More holidaymakers to Czech Rep

The number of foreign tourists coming to the Czech Republic rose by 8.2 percent on the year to 2.9 million in the first half of the year, CzechTourism spokeswoman Karin Seligova said, cited by Prague Monitor on September 26. Most Czech regions reported an increase in the number of foreign visitors. Prague was the destination for 58.7 percent of all the tourists arriving in the Czech Republic. Some 1.7 million foreigners, mainly from Britain, Germany and Italy, visited the country's capital, a growth of 11.6 percent on the year. The Karlovy Vary region, with 179,000 foreign visitors, ranked second. Most visitors from Russia and Germany came to stay in the spa towns.

## Home-building savings spending

State expenditures on home-building savings subsidies keep growing despite stricter conditions and will reach nearly 16 billion Czech crowns next year, Prague Monitor reported on September 26. "For next year, a sum of 15.8 billion crowns is planned in the budget for these purposes," Finance Ministry spokesman Marek Zeman said. It will be an increase of 400 million crowns against this year. More advantageous old contracts are still in force under which the maximum state subsidy amounts to 4,500 crowns a year. As of the beginning of 2004, the sum was reduced to 3,000 crowns. As a result, a record 2.5 million contracts were concluded in 2003.

## Office rent falls 2.6% in Prague

Rent for office space in Central and Eastern Europe has been falling and in Prague dropped 2.6 percent to 18.50 Euro (548 Czech crowns) per square metre per month in the first half year, according to a CB Richard Ellis (CBRE) analysis, Prague Monitor reported on September 26. Rents for office space also decreased in Bratislava, Warsaw and Sofia, but grew in Moscow, Tokyo and Hong Kong. The highest rent for office space (132.59 Euro per square metre per month, down seven percent on the year), was paid in London's West End last year.

## Siemens wins broadband deal

German group Siemens has won a tender to upgrade the broadband telecommunication network of Czech telecom and transmission company Ceske radiokomunikace (CRA), the companies said in a recent statement, cited by Prague Monitor. Siemens beat rival Cisco in the tender worth almost 20 million Czech crowns. The new technology will allow CRA to offer data, voice and video services with a big range of connection and transmission capacities in up to dozens of Mb/s.

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## Govt wins close referendum on broadcasting law

Slovene Prime Minister Janez Jansa's centre-right governing coalition narrowly won a referendum last Sunday on a new law regulating radio and television broadcasting, over the objections of the liberal and social democratic political opposition. The initial final results issued by the government election commission in Ljubljana had 50.2 percent of voters in support of the ballot measure. The no vote was 49 percent, with 0.8 percent of ballots blank or invalid. The votes of Slovenian citizens living outside the country were yet to be counted but were not expected to be enough to affect the result. Voter turnout was 30.7 percent. The results of the referendum are binding on the Slovene parliament, regardless of the level of voter turnout.

## Vega gets new DG, Fast replaces Coustaury

Vega, Slovenia's troubled third mobile services provider, has a new director general, STA reported recently. Steven Fast has replaced Julien Coustaury as the director general of Vega. "But the change of leadership does not signal a change of business direction," said Roger Blott, regional director of Vega parent Western Wireless International. "This means that there will be no changes regarding Vega's damage suit against the state," Blott was quoted as referring to the 48.8 billion tolar (203.7 million Euro) that Vega demands for allegedly unfair competition on the mobile market.

## Ljubljana to promote R&D programme

The Slovene government's main objective is to increase the influence of R&D (research and development) by promoting cooperation among companies, researchers and intermediaries who transfer new technology and innovations to the corporate sector, seeurope.net reported recently. The government adopted a resolution on the national research and development programme for the period 2006-2010, the report said. According to Jure Zupan, the minister of higher education, science and technology, the resolution follows the objectives of forging ties between research facilities and the corporate sector. This will create an effective system that will contribute to boosting national income. In line with the Barcelona objectives, investment in R&D is set to increase to three percent of GDP by 2010. Investment of the corporate sector is to double to two percent of GDP and those from the budget are to reach one percent of GDP. The government intends increasing the annual R&D budget by approximately 0.1 percent of GDP.

# Austrian food companies seek stronger presence in Slovenia

Exports of Austrian food companies to Slovenia increased in the first two quarters of 2005 by 33 percent year-on-year, while imports of Slovenian food items soared by 149 percent, Georg Krauchenberg of the Austrian embassy told a press conference, it was reported on September 26.

Despite the rising Slovenian exports, Austria is still ahead: the value of Austrian food exports increased from 45 million to 59 million Euro in the first six months of the year, while Slovenian export were up from six million to 15 million Euro. "The substantial increase of bilateral trade is a logical consequence of Slovenia's EU entry. We are recreating a common market now, since the situation before the abolition of borders was especially difficult for food products," Krauchenberg said in a presentation of Austrian food companies on September 20.

The presentation comprised 45 Austrian food compa-



Young people relaxing in a street cafe in Ljubljana, the capital of Slovenia

nies and generated great interest among Slovenian companies as well. Representatives of large trade companies, hotels, spas and specialised importers attended the presentation.

Most products are already on the market in Slovenia, but

the Austrian producers want additional promotion. According to Krauchenberg, Austrians come to Slovenia as tourists, while Slovenians often go shopping in Austria. The exchange of food products is therefore welcome. Demand differs ac-

cording to food segments, but dairy products and meat are the biggest exports to Slovenia. Imported meat is mainly fresh, while Slovenia has its own quality salami producers. Chocolate is another key product imported from Austria.

## More and more foreigners buying Slovenian properties

The Slovene Tax Administration (DURS) said in its latest report published last week that more than 500 foreigners have purchased real estate ever since Slovenia became a member of the European Union. The properties, especially in the NE Pomurje region, at the coast

and in the NW Gorenjska region, are mainly being bought by Britons, STA said, citing the report.

Foreigners are especially interested in real estate in the coastal municipality of Koper (164 purchases since May 2004), and Murska Sobota in

the northeast (150).

These are followed by the NW municipality of Kranj (90) and Nova Gorica in the west (77), according to Sebastjan Vehar of the real estate agency Property.

Around 29 percent of the 500 properties were purchased

by the British, while Italians bought 24 percent, Austrians 18 percent and Germans 15 percent.

This increase is the result of articles and TV shows about Slovenia as well as low property prices in the country, Vehar explained.

## SLOVAKIA

### Ministry says KIA demanding too much

The state decided to change its approach to its management of the investments of KIA car-maker in Slovakia, The Slovak Spectator reported on September 26, citing the daily Pravda. "Zilina Invest was under pressure and more or less agreed with each extra demand, so these increased to an unbearable level. We want to change it and ask for example, why a state should pay for a railway connection if it is not going to use it," Peter Papanek, advisor to the acting economy minister, told the daily.

### Companies favour hiring temps

Between 5,000 and 10,000 workers in Slovakia are being hired out daily to firms by around 170 employment agencies, The Slovak Spectator reported last Monday. Companies see personnel leasing - the hiring of workers for a fixed period of time - to be a cost-effective and convenient way of operating. By using the services of

employment agencies firms can take on workers according to their needs at any one time. When firms need extra workers on a temporary basis, they can hire and therefore pay them, only when they need to, said Jaroslav Holecck of Volkswagen's personnel affairs management board.

### Cargo fined millions for abusing market

Railway freight company ZSSK Cargo Slovakia will have to pay penalties imposed by the anti-trust authority (PMU) for abusing its dominant position in the market over recent years, The Slovak Spectator reported last week, citing the daily Pravda. Small railway companies have been complaining to the PMU about what they consider to be the anti-competitive practices of the current and previous Cargo Slovakia management.

So far the fines amount to more than 100 million Slovak crowns (2.6 million Euro). However, with other cases pending, that sum may increase. Cargo Slovakia is paying hundreds of thousands of crowns in legal fees to appeal the cases from which it has received fines to the Supreme

Court. However, by doing this, the company risks having to pay out millions of more crowns in extra penalties.

### Transport wants billions for roads repair work

Slovakia's Transportation Ministry wants to invest 10.4 billion Slovak crowns (271 million Euro) into road maintenance by 2010, the Tasr news agency reported last week. According to the Programme of Road Maintenance, around 703 kilometres of Slovakia's first-class roads are in an unacceptable condition. This represents 23 percent of the roads administered by the national roads authority, the SSC. Around 113 kilometres, or 3.7 percent, of these roads are in need of emergency repairs.

The ministry said the cost of repairs was underestimated, both last year and this, and it added that there are two variations for how to go forward. One variation would be to halt the deterioration of the first-class roads network with an investment of 1.9 million crowns (49,000 Euro). The second variant, which the ministry favours, is to improve the condition of the first-class roads network and undertake all necessary

emergency repairs. This variant would require financing to the tune of 2.4 billion crowns (47 million Euro) in 2006.

### Tender for highway construction

Slovakia's national highway company (NDS) was due to begin a public tender on October 1 to find a supplier for the first part of the Mengusovce-Janovce highway. The NDS estimates that the construction of the eight-kilometre strip will cost between four billion Slovak crowns (100 million Euro) and 4.7 billion crowns (122 million Euro), The Slovak Spectator reported last Monday.

Construction works on the motorway, tunnel, bridges, supporting and retaining walls, as well as engineering networks, should start on December 1, 2005. The NDS estimates that the project will be finished by December 2008.

This is the third planned tender concerning the highway.

The previous was cancelled by the public procurement authority, UVO. The stretch is a part of a 26-kilometre-long highway. Works on the other stretches started in May.

## LATVIA

# New Latvia logistics centre targets retailers

Latvian firm Rigas Pien-saimnieks has opened one of the most modern dairy industry logistics centres in the Baltic region as part of a major investment project to increase contracts with European retailers, it was reported on September 26. According to The Dairy Reporter, Arvids Usca, director general of the firm, said the new logistics centre would act as a staging ground for increasing exports to Europe and elsewhere in the world, and could increase the company's exports by 30 percent.

Rigas Pien-saimnieks is one of the largest dairy processing companies in Latvia and the Baltic States, and specialises in exporting high quality dairy products. Yet, the firm is looking to raise production of non-dairy products by 40 percent this year. The firm's new centre is the last phase of a 2.3 million Lats project, part-funded by the EU, which has also enabled Rigas Pien-saimnieks to build Europe's only specialised production line for fruit-flavoured ice-lollies. The company said its



*Cows finish feeding on a dairy farm*

figures showed that within the first few weeks of opening, its new logistics centre and warehouse complex has doubled its customers. The new logistics centre may be of particular interest to western retailers now looking to expand across Eastern Europe. The UK's Tesco, in particular, has been driving into the region for 10 years and announced more store open-

ings this year. Meanwhile, world number one Walmart said recently that it was considering launching in the area.

Rigas Pien-saimnieks has equipped its centre with a computerised SMS (Storage Management System) warehouse management system, which ensures a permanent warehouse temperature of 4 degrees Celsius.

The computerised system also makes it possible to significantly increase the number of orders that can be handled, the firm claimed.

The centre can handle nine trucks at once, making use of automated ramps that were specially constructed for this purpose. Rigas Pien-saimnieks had turnover of 26.5 million Euro in 2004.

**The joint-stock banking company Aizkraukles banka will grant one million lats for a permanent collection at the future Modern Art Museum in Riga and a special scholarship fund; the amount will be paid out in 11 years, Leta news agency reported on September 23. Minister of Culture Helena Demakova (People's Party), Aizkraukles banka chairman of the board Ernests Bernis and deputy chairman of the board Olegs Fils signed a cooperation agreement on the financial assistance on September 23. The money will be used for the development of the museum's collection and exhibits.**

## LITHUANIA

## Lithuania agrees jet crash accidental

The crash of a Russian military jet in Lithuania was almost certainly accidental and the pilot will be sent home when the investigation ends, the defence minister said on September 23, but he criticised Moscow for sending a plane armed with missiles into the country's airspace, AP reported. Lithuanian media speculated that the crash was planned to provoke the Baltic state or to test the response time of the four German NATO jets based there. The pilot is being held on suspicion of violating Lithuanian airspace. Defence Minister Gediminas Kirkilas, however, said the crash was most likely an accident resulting from poor coordination and planning by the Russian air force. "The provocation version can almost certainly be discarded," Kirkilas said. He questioned why the plane, which was part of a convoy granted passage through an agreed "corridor" over Estonia, Latvia and Lithuania, was armed with four air-to-air missiles. Investigators have recovered three of the missiles, but the fourth is still missing. "These are not air policing forces tasked to safeguard that airspace," Kirki-

las said. He added that the crash posed a threat to Lithuanian, EU and NATO security, in that it showed the sorry state of the Russian military.

The plane went down September 15 while travelling from St. Petersburg to the Russian enclave of Kaliningrad. The pilot, Maj Valery Troyanov, ejected safely and was later detained. Lithuania, a former Soviet republic that joined NATO and the EU last year, has rejected Moscow's demands to release Troyanov, further straining already tense relations between the two countries. But Kirkilas said the pilot would be returned to Russia.

## Vilnius approves Euro introduction plan

The Lithuanian government on September 27 approved a plan for replacing the national currency, lita, with the Euro in 2007, the government information bureau said, cited by Forbes. Under the plan, the Euro will be introduced on January 1, 2007, but for two weeks, the lita will still be accepted as a means of payment. The lita is pegged to the Euro at a rate of 3.4528 to 1. Under the plan, shops in the Baltic country will be oblig-

ed to announce prices in litas and Euro 60 days before and two months after the introduction of the Euro. Lithuanians will be able to exchange litas for Euro free of charge in commercial banks for two months after the introduction of the Euro, and the central bank will exchange the national currency for Euro for an unlimited period. A final date for the Euro's adoption will be set by the EU when it decides that Lithuania meets the Maastricht convergence criteria. Lithuania was one of 10 countries to join the European Union in May 2004.

## Kirkilas for Kaliningrad demilitarisation

Lithuanian Defence Minister Gediminas Kirkilas said that heavily armed and fortified region of Kaliningrad Oblast should be demilitarised, The Baltic Times reported on September 23. Speaking days after a Russian jet fighter flying to Kaliningrad crashed on Lithuanian territory, Kirkilas said, "Even Russians say that (the accident) might have happened due to a very narrow corridor for flying to Kaliningrad, so I wonder what that narrow corridor is for."

## ESTONIA

## Joeruut resigns, angry over failure to probe corruption

Estonian Minister of Defence Jaak Joeruut stepped down on September 26, accusing the ruling coalition of not investigating alleged corruption and of close ties between some members of the business community and the government, Deutsche Presse-Agentur (dpa). Joeruut, a member of the Reform party, said in a statement that he was "very much disturbed when the interests of the political and business worlds get so much entangled that no one has clear answers any more." He cited the central bank's refusal to investigate corruption in the banking sector, the pro-Russian sympathies of a coalition partner, and the People's Union's call for foreign observers to monitor elections as the reasons for his decision to step down.

## CeMines unit seeks clearance to distribute cell correct lab

CeMines, Inc last week said the company's wholly owned subsidiary — CeMines International Inc, CeMines Estonia OU — has filed for CE Mark registration through Trial Form Support AB, its primary contract research organisation (CRO) partner for Europe-based regulatory initiatives, PRNewswire reported. "CeMines is seeking EU clearance for clinical use of the company's minimally invasive lung cancer-detection test, CellCorrect LAB. CE Mark registration is mandatory in order for CeMines to commercialise our current and future products in 25 European Union and three European Free Trade Association (EFTA) member states," said Roger Attick, President and CEO of CeMines, Inc.

## H1 beer sales on the rise

Brewers in Latvia saw sales rise slightly in the first half of this year, showed latest figures released by the Latvian breweries association (LADS) last Monday. The data showed that sales in the six-month period were up by 3.9 percent year-on-year to 43.76 million litres. Grigis Un Co, Abula and Cesu Alus breweries saw the most impressive increases in sales, while Alus Tirdzniecibas Grupa, Piebalgas Alus, Lacplesa Alus and Bauskas Alus all saw sales slump year-on-year, according to just-drinks.com. Aldaris, the domestic market leader, saw sales rise by 4.7 percent to 18 million litres, with Cesu Alus rolling in second place with a 10.5 percent increase in sales to 7.27 million litres. "This year, the beer market is expected to recover to its previous volume," said LADS executive director Ivars Grislis.

## August producer prices up

Producer prices in Latvia rose 1.2 percent in August from the previous month and was up 6.2 percent year-on-year, the Latvian statistics bureau said, BNS news agency reported on September 22. The statistics bureau said producer prices for goods sold on the domestic market grew by 1.3 percent from July, while producer prices for export goods rose by one percent. In comparison with August 2004, producer prices for domestically sold goods increased 6.4 percent and for exported goods 5.9 percent.

## Austria eyes ties with Latvia regions

Latvian Regional Development and Local Government Affairs Minister Maris Kucinskis (People's party) held a meeting on September 26 with Austrian Ambassador to Latvia Wernfried Koeffler, who declared that Austria is interested in establishing cooperation with Latvia's regions, Leta news agency reported. Kucinskis informed the ambassador that his ministry is coordinating the drawing up of the Latvian National Development Plan and at the same time is becoming acquainted with similar such plans made by other countries. Kucinskis called Austria's plan a positive example in many aspects. Koeffler outlined priorities he has set during his term of office in Latvia, and one of them was establishing cooperation between Latvia's and Austria's regions. He described his recent trip to Liepaja where he was introduced to various cooperation projects that Austria is involved in. One of them is construction of the new concert hall. Koeffler vowed to represent Austria's interests not only in Riga, but in regional areas as well. Kucinskis told the ambassador about the course of regional reform and administrative-territorial reform in Latvia.

## Swiss get back looted funds

The World Bank last Tuesday confirmed the return of USD 290 million of looted funds from Switzerland to Nigeria eight months after a Swiss court ordered the move, and said the case should serve as an international precedent for transparency and justice. "The message is that there is no safe haven for looted funds or corrupt activities," said World Bank President Paul Wolfowitz at a press conference. At issue was the return of USD 458 million that Nigeria's late military leader Sani Abacha pilfered from his country and stored in Swiss banks. It was not clear when the remaining money would be given back. Switzerland agreed more than a year ago to return the money, and the Swiss Supreme Court backed up the decision in February by rejecting an appeal by Abacha's family to keep the money. But in May, the Nigerian government complained that Switzerland was delaying the pay-out as blackmail to demand repatriation of Swiss citizens convicted of crimes in Nigeria. In the end, the World Bank got involved and, in line with Wolfowitz's push for transparency and economic progress in Africa - the world's last lagging continent, has been monitoring the repatriated funds and ensuring "they are channelled to support key sectors" such as education, health and HIV/AIDS.

## Leica to fall in Swedish hands

Swiss measuring group Leica Geosystems was almost at the brink of being taken over as expected by the Swedish technology company, Hexagon, reports said last week. By the end of week before last's trading, according to market reports, more than 70 percent of Leica's shares had been tendered to Hexagon's public offer, the Swedish company announced. However the definite number was yet to be published. Hexagon offered shareholders 440 Swiss francs (USD 341) in cash plus five B shares of Hexagon, which increased the bid to 594 francs at Friday before last's market prices, and gave Leica a valuation of nearly 1.5 billion francs. The takeover came one week after rival bidder, Danaher, withdrew its offer, which amounted to 500 francs a share. Zurich Cantonal Bank analyst Serge Rotzer commented week before last that Leica shareholders were in no position to reject the Hexagon bid after Danaher pulled out. "The price is attractive and they stand to make a good profit," said Rotzer, adding that the share price would probably fall if Hexagon also withdrew. He noted the takeover made strategic sense. "Hexagon is in the same business as Leica and the two companies even share some of the same customers, so they can have good synergies. For example, Airbus is a customer of both. Leica does measurements for aircraft doors and Hexagon for the wings," said Rotzer.

## Airline chairman to bow out

Ahead of his departure as the head of Swiss International Airlines, Pieter Bouw admitted at a press conference last week that he made mistakes but "can leave with head held high," swissinfo reported. Although Swiss continues to make heavy losses, Bouw appeared upbeat about the carrier's future following its recent takeover by German rival Lufthansa. Bouw was named chairman of Swiss when the airline was founded following the collapse of Swissair in 2001. He was due to step down last Thursday when the board of directors was scheduled to be reshuffled. His appointment four years ago was greeted with scepticism by some aviation experts, who questioned whether the former chief executive of Dutch carrier KLM was up to the task of turning the remnants of Swissair into a new national carrier. According to him the biggest challenges facing Swiss following the deal with Lufthansa were high fuel prices and "an ongoing row" with the airline pilots' union, Aeropers, over working conditions.

## SWX removes Francioni from post

The Swiss stock exchange (SWX) last week relieved Reto Francioni of his duties as chairman with immediate effect. The SWX said the decision was connected with Francioni's nomination to the top position at its German counterpart, Deutsche Borse. Francioni was week before last recommended to replace Werner Seifert, who resigned as chief executive of the German stock exchange in May. In a statement last Wednesday, the SWX group said it had "taken note" of Francioni's nomination.

# Higher health insurance costs in the offing

**H**ealth insurance premiums will increase next year by 5.6 percent, mainly due to significantly higher costs in the hospital sector, swissinfo reported last week quoting the Federal Health Office.

The office said last Tuesday that the rise would bring the national average monthly premium for obligatory health cover to 306 Swiss francs (USD 236) per adult.

In Switzerland, there are significant differences in the cost of insurance within each canton from one provider to another. The health office has recommended that individuals "shop around for cover."

According to the statistics posted by the health office, Geneva remains the most expensive canton with an average monthly premium of 426 francs. The increases would range from 3.6 percent in Geneva to 9.9 percent in Bern.

The increase for young adults for 2006 would be higher than for adults at 7.1 percent while children's premiums would go up by 3.5 percent, it



The San Giovanni hospital in Bellinzona, Switzerland

said. Overall, the premium hike for 2006 would be higher than it was for 2005 (3.7 percent), the office added.

According to the estimations of the insurers, cost would go up at 21.7 million francs in

2006 for providing the basic insurance package nationwide - an increase of 1.3 million francs. One third of this increase would come from hospital costs, the insurers said. Switzerland's health system is the second

most expensive in the world. The current health insurance law, which has been in existence for 10 years, was partly devised to control costs but health inflation has gathered pace in the last decade.

## Voters approve labour market referendum

Switzerland last Sunday voted in favour of opening up its labour market to citizens of the 10 new European Union states by an unexpected majority of 56 percent, according to the official poll results of the referendum, cited by Deutsche Presse-Agentur (dpa). A much closer result had been expected in the referendum, which required a simple majority to pass.

Voter turnout was reported to be 54 percent, three percent lower than turnout for June's referendum on the Schengen agreement. The result was the second decisive acceptance of an EU directive by Swiss voters. The so-called Schengen Accord

on the free movement of people within Europe was also approved.

Swiss Foreign Minister Micheline Calmy-Rey welcomed the result, saying she was happy that voters had supported the government's pro-Europe policies.

EU Commission President Jose Manuel Barroso said the result proved that Switzerland and the European Union could successfully work together to strengthen European convergence. Britain, which holds the rotating EU presidency, said the European Union was happy to continue its close ties with Switzerland.

The 4.8 million eligible voters were deciding whether workers from the 10 mostly eastern European countries that joined the EU in May 2004 could seek employment in Switzerland. The referendum centred around the free movement of citizens from the 10 new member states, namely: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

For citizens of the 15 "old" EU member states the Swiss labour market has been open for 18 months. In line with other countries, however, Switzerland will place quotas on the number

of citizens coming from new EU states until 2011.

Due to strict controls, there has been little evidence of a black labour market or pressure on wage levels in Switzerland, arguments which sections of the political right put forward against the opening of the labour market.

All other ruling parties, employers and unions were however in favour of the new regulation, which includes some exceptions. The vote was significant for the future relationship between Switzerland and the EU as Brussels would not tolerate any inequalities in the treatment of its citizens.

## Parliament votes to toughen asylum law

The House of Representatives last week followed the Senate in tightening Switzerland's asylum law, despite a threat by the centre-left to force a referendum on the issue. The house last Monday agreed to drop admission on humanitarian grounds along with social welfare for rejected asylum seekers. Only emergency aid is being retained.

After winning approval from the Senate, the right-wing Justice Minister, Christoph Blocher, succeeded in having his revision of the law on asylum seekers easily adopted. The cen-

tre-right majority rejected by 107 votes to 76 the introduction of admission on humanitarian grounds, opting instead to work within the current system of provisional admission.

According to the renewed provisions, asylum seekers admitted on a provisional basis thus would not have the right to bring their families to Switzerland until three years have passed. Provisional admission would be granted when return to the country of origin represents a concrete danger to the person, notably in case of war,

conflict or medical distress. The cantons retain the right to define conditions for difficult cases.

The House also ruled out social welfare for rejected asylum seekers, by 109 votes to 77. The majority found that a one-year trial period had been positive. The aim of this measure was to speed up deportation of rejected asylum seekers. According to the governmental decision, cantons would be allocated 15,000 Swiss francs (USD 11,567) per case, to allow them to provide emergency assistance

to rejected asylum seekers.

However, the chamber backed down from cancelling any emergency assistance to those who do not want to leave Switzerland after a negative decision, in line with a Federal Court ruling.

The issue was pending to return to the Senate for further debate. In another vote last Tuesday, the House of Representatives raised the maximum detention period for foreigners awaiting deportation to 18 months for adults and nine months for minors over 15.

# Privatisation deals irreversible, says PM

Ukrainian Prime Minister Yuri Yekhanurov has reassured Russian business that old contracts and privatisation deals are irreversible. At a last Friday meeting with Russian Prime Minister Mikhail Fradkov, he said that he is ready to repeat the signal he gave to Russian business during his visit to Dnipropetrovsk last Thursday. Yekhanurov reiterated that agreements were unshakable.

Yekhanurov said the Ukrainian government is to hold a large-scale meeting with businessmen in the middle of October. The re-privatisation procedure in Ukraine has been completed, he said at a meeting with Russian President Vladimir Putin last Friday. "We are going to hold a large-scale meeting with business and talk with each of the businessmen," he said. Putin congratulated Yekhanurov on his appointment as prime minister of Ukraine. The Kremlin leader said he hoped that in this "difficult period of Ukrainian history" Yekhanurov would be able "to help President Viktor Yushchenko consolidate society and overcome negative tendencies which have appeared in the Ukrainian economy." "We know that GDP growth in Ukraine has considerably decreased and that other systematic difficulties have emerged," Putin said.

He said he hoped that Yekhanurov would "be able to overcome this tendency and not only preserve the existing level of cooperation between Russia and Ukraine, but would give a new impetus to it."

The level of cooperation between Russia and Ukraine is very high, he said. "The economic and social well-being of many people in Ukraine and Russia will depend on whether we cooperate successfully, especially in the economic sphere. The fact that many enterprises in Russia and Ukraine cannot exist effectively without this cooperation should be taken into consideration," he said.

For that reason, the operations of the Russian-Ukrainian intergovernmental committee for trade and economic cooperation will be launched in the



Russian President Vladimir Putin (R) shakes hands with Ukrainian Prime Minister Yuri Yekhanurov (L) during their meeting in the Novo-Ogaryovo presidential residence outside Moscow on September 30, 2005. The meeting was to discuss cooperation between Russia and Ukraine

nearest future, Fradkov said at the meeting with Yekhanurov.

He said the two prime ministers head the committee while ministers and their deputies will be committee members. "I believe we will start using the mechanism soon," he said. "We are glad that the cabinet crisis (in Ukraine) is over," Fradkov said. In his turn Yekhanurov stressed that he is making his first foreign visit in his new capacity to Russia. "It is not normal that there have been no meetings of prime ministers this year," he said.

## Gas delivery talks to intensify

The prime ministers of Russia and Ukraine have also instructed their energy ministries to intensify talks with Ukraine on the delivery and transit of natural gas and the pattern of settlements for it, Fradkov said.

"We agreed to give instructions to intensify the talks," he told a news conference after the talks. Yekhanurov rejoined by saying that gas cooperation is discussed at ministerial level and voiced confidence that the sides will find an acceptable solution. Interfax quoted

Yekhanurov as saying the meeting also mulled cooperation in industry, as well as in the energy sector, in particular the expansion of cooperation in aircraft-making and high tech. "Energy will not be the only contents of our relations," he said.

Fradkov recognised that at the meeting the sides demonstrated similar approaches. "We are set on working in a constructive spirit," he said. "We are looking forward to joint intensive result-oriented work," he said. Fradkov tried to allay doubts expressed by Ukrainian journalists that the Russian side is deliberately playing down the level of the talks, as there were only deputy ministers on the Russian delegation.

"The fact that the Russian delegation consisted of deputy ministers does not mean that we are playing down the importance of these talks. (Economics Minister German) Gref and (Industry and Energy Minister Viktor) Khristenko are on business trips and (Finance Minister Alexei) Kudrin was speaking at a board meeting of the Federal Anti-Monopoly Service," Fradkov said. Yekhanurov said he was satisfied with his meeting with Fradkov. "I liked the tone of today's negoti-

ations very much," Yekhanurov said at a meeting with Putin. This was the first meeting at prime ministerial level this year, which had been a problem for many businessmen, he said. "We should avoid such problems," he said.

## Common border checkpoints

Russia and Ukraine have also agreed to establish common checkpoints at the border between the two countries, Putin said at the meeting with Yekhanurov.

"To my mind, it is very important, not only in order to help people live normally, which in itself is very important, but also from the point of view of developing and improving economic cooperation between the two countries."

Putin and Yushchenko had a telephone conversation last Friday during which they discussed individual aspects of bilateral relations. The topics included questions of simplifying the procedure of border crossing for nationals of the two countries that were raised during the last Tuesday phone-in show hosted by the Russian president.

## Nikolayenko says policy changes necessary

The reforms that have swept Ukraine since the Orange Revolution last winter will also help improve the country's educational system, Ukrainian Education and Science Minister Stanislav Nikolayenko said last Thursday. "The Education Ministry of Ukraine has been incorporated recently in the general reform of the education system and this will be examined by the president and the government as soon as possible," he told New Europe at the sidelines of the Black Sea Economic Cooperation Council (BSECC) conference in Athens.



Minister of Science and Education Stanislav Nikolayenko

By Kostis Geropoulos

"We are changing the social and economic relationships within education. First of all, we put the teacher, the professor at the centre of the educational system with a good salary so that there is a motive for educating all Ukrainians," Nikolayenko said, adding that the average salary in education was increased by 57 percent this year. Other changes include the improvement of pre-school education, increasing the course of school education to 12 years and changing university education based on the Bologna declaration agreement.

Nikolayenko has kept his post after the recent cabinet reshuffle. The ministries of fuel and energy, industry, agriculture, industrial policy, ecology, as well as sport are also all set to be run by ministers from the previous government. But there are a lot of new faces as well including Arseniy Yatseniuk as economics minister and Viktor Baloga as emergency situations minister, both career government employees known for their loyal service. Ukraine's parliament approved the nomination of one of country's most popular technocrats, Yuri Yekhanurov, to the job of prime minister two weeks ago. Yekhanurov has promised to rid government of the infighting endemic in the previous one, which swept to power in Ukraine's Orange Revolution.

Ukrainian President Viktor Yushchenko sacked Yulia Tymoshenko's cabinet amid in-fighting on September 8. Her dismissal and allegations from both sides about the rampant corruption Yushchenko had vowed to stamp out created a dangerous rift in the former Soviet republic's pro-Western leadership. Nikolayenko said the crisis was unavoidable. "Only 14 years have passed since Ukraine's independence and the country is in a state of change. There are development problems. Our country like any other social, economic organisation has to go through several development stages. Ukraine went through all these stages in one night: The night of the Orange Revolution. But all these people did not change overnight despite the revolution," the Ukrainian minister said.

"Time is needed for restructuring like, the current changes taking place in the new government. Previous illegal activities where swept under the carpet. Everybody knew about them but did not speak out. Now the situation has radically changed and the president has changed this government not for being involved in illegal activities but for entertaining the idea of becoming involved in them," he explained.

The Ukrainian education minister noted that Ukraine is implementing its budget and increasing revenues. Ukraine's economy has been growing at a rate of 2-3 percent, which is lower than in previous years, but the government has set a target of 5 percent, Nikolayenko said, adding that Ukraine had a hard time during the last presidential election. "But now I think there will be stability," he said.

Nikolayenko opined that the government changes were necessary. "Ukraine needs major reforms not only in education but in all sectors leading to transparent, proper governance which is now realised."

But the course of reforms may be also affected by the national parliamentary elections scheduled for March. "Of course there is going to be political conflict between the old and the new but I'm certain that the political parties will find a common ground, and the person who can unite all the political forces to create a socio-economic state is President Yushchenko," Nikolayenko claimed. "I believe the result of the political struggle will be the new, democratic Ukraine."

Kostis Geropoulos, Senior Reporter, New Europe

## EU to grant market Ukraine economy status

The EU is likely to grant Ukraine the much-wanted market economy status ahead of the European Union-Ukraine summit on December 1, the European Commission announced on September 28. "Our assessment is that overall

the Ukraine's market economy status has been evolving positively," stated EU spokesman Pia Ahrenkilde Hansen.

Recognition as a market economy is largely symbolic, but it would give Ukraine added protection against pos-

sible charges of breaking global trade law on antidumping.

The EU questioned Ukraine earlier this year about government price intervention and bankruptcy rules.

Hansen said the EU had all the information it needed

and would ask its 25 member states to approve any recommendation to grant market economy status, join World Trade Organisation and become an associate member of the EU within three to five years.

## Army lures draft dodgers into service

When draft dodger Andrei D. left his Moscow apartment to meet with a mysterious caller who claimed to be "Masha from our kindergarten days," he was greeted with handcuffs around his wrists rather than a kiss on the cheek. This was one ploy reportedly used by Russian police last spring to round up thousands of reluctant youths for army service. The autumn call-up of 140,000 conscripts, which began on October 1, should yield more inventive ruses.

"We've seen it all - simplest of all police come, ring at the flat and take the boy away in handcuffs, or lurk in his house entrance and get him when he goes to work," Deutsche Presse-Agentur (dpa) quoted Valentina Melnikova, head of the Union of Soldiers' Mothers Committees, as saying.

Her group advises prospective soldiers and their parents on legal rights of exemption from service in Russia's brutal, run-down armed forces, and helps them to understand conscription procedures it says are deliberately confusing. "If the authorities followed the letter of the law they wouldn't be able to call up a single person," says Melnikova, adding that boys are often detained, delivered to a recruitment centre and sent within a day to army bases across the country.

By law police cannot enter a draft dodger's home without a special warrant during the three-month call-up period. So they turn to alternative methods to nab someone who has received his draft papers and is classed as absent without leave, or to serve an eligible draftee with the documents, which have to be delivered in person like a subpoena. In the southern city of Volgograd the grandmother of Alexander N. successfully rebuffed attempts by police to enter the family home, reports the Novye Izvestia newspaper. Next morning a man in a T-shirt and ragged track-suit trousers rang at the door, complaining that one of their pipes had burst and was flooding his flat, a common enough problem in Russia. When the family went to inspect the damage the man whipped out his draft board identification and led the youth away.

Moscovite Alexei V. had just finished art school and was preparing to start an institute course when a pleasant young woman rang with a tempting job offer.

Arriving at the stated address for an interview, Andrei walked into the welcoming arms of recruiters at the draft board office.

And a promising young television reporter in the far eastern city of Khabarovsk managed to evade call-up until the day he received an anonymous call from someone offering him a scoop.

Carrying nothing but his notebook and pen he was then whisked off to a construction battalion to serve his time. "We warn people to be wary of calls from strangers," says Melnikova.

There are 1.2 million people in Russia's armed forces, of which only 130,000 are contract soldiers and the rest are conscripts.

The defence ministry is slowly switching to a professional army, with plans to reduce the conscription term from two to one years in 2008. But this will require the army to enlist twice as many people, around 500,000 a year.

Meanwhile, the incentives to avoid army service are great. Poor conditions and violence at the hands of older recruits and officers are commonplace and legendary.

In the first eight months of this year 662 servicemen died in non-combat incidents, including 182 suicides, 358 killed in road and other accidents, and 14 killed by other recruits.

In an incident in December 2003 that focused public attention on abuses and drew angry comments from President Putin, 80 conscripts flying from Moscow to the Far East were hospitalised after they were paraded in light clothing for eight hours in minus 25 degrees Celsius during a refuelling stop in Siberia. One died of pneumonia, dozens developed complications.

Such incidents are common during the call-up period, according to the Soldiers' Mothers Committees.

Small wonder that parents pay hefty bribes to doctors and draft officers to keep their sons out of uniform. Each year such shadowy transactions are estimated to involve up to USD 800 million. And with military officials complaining that less than 10 percent of eligible soldiers are drafted, the cat and mouse games look set to continue indefinitely.

# Government prepared to cooperate with business

Russian authorities understand the interests of the business community and are prepared to cooperate with it, said Prime Minister Mikhail Fradkov last week.

Stability has been attained, the authorities clearly understand the interests of the state and of the business community and are prepared for cooperation, Fradkov told an international conference on investments in the Russian economy in Moscow last Tuesday.

Private-state partnership shows considerable promise, Fradkov said, but noted that a great deal is still to be done in this area.

The state is prepared to provide guarantees to Russian and foreign businesses of undisturbed work on the Russian market and to further perfect the tax system, the prime minister said.

Fradkov admitted, however, that, a lot of redundant bureaucratic work is being done, which sometimes is of a corrupt nature. Russian President Vladimir Putin has held a meeting with Fradkov. Social and economic issues were discussed,



Russian Prime Minister Mikhail Fradkov addresses the State Duma

Presidential press secretary Alexei Gromov told Interfax.

Meanwhile, Fradkov instructed ministries and departments last Thursday to convene expanded senior officials' meetings and adopt plans to implement the social projects pro-

posed by the president.

Fradkov said he will personally attend the meetings, giving special attention to the education and science ministry, the health and social development ministry and the agriculture ministry. Fradkov will also

attend a meeting on housing programmes.

"The nation must know who is responsible for what in implementing the national projects, and what the timeframe in this work will be," the Russian prime minister said.

## Yavlinsky optimistic about Yabloko-SPS unification

Yabloko party leader Grigory Yavlinsky is optimistic about the prospects of a unification of Yabloko and the Union of Right Forces (SPS), it was reported last week.

"We will be looking for common ground on manifesto issues. We are in the process of converging our manifestoes and are working out a common standpoint. Should everything

go well for us, then a political force could emerge by 2007 aiming at not only overcoming the seven percent threshold, but at receiving 30-40 percent of votes. In other words, a serious and influential political force should appear," Yavlinsky told a press conference last Wednesday.

The compilation of a common list of candidates in elec-

tions to the Moscow City Duma "does not mean that we will start merging our parties after December 4," Chairman of the SPS Federal Political Council Nikita Belykh said at the same press conference. "But it will be much easier for us to talk after December 4," Belykh said.

Describing the importance of agreements reached by the two parties, Belykh noted that

"nobody believed in their realisation at all until the last moment." He said, "Therefore we reaffirm our ability to reach agreements. We displayed unbelievable flexibility during negotiations and the fact that we compiled a common list is the beginning of a long and difficult path. This is a good message not only to our parties but to all democratic forces."

## Friend or foe system may be in NATO hands

Lithuanian investigators unearthed a Russian friend or foe system at the site of a wrecked Su-27 fighter jet that crashed in the country earlier this month, news agency BNS reported last Friday.

The friend or foe system allows for Russian military to identify other aircraft as either

an enemy or one of their own. If the system is recovered, and decoded it could prove to be a major find for Lithuania and its NATO allies.

The system may be badly damaged due to the crash, a source close to the investigation told the news agency. Lithuanian defence department offi-

cials refused to confirm or deny the find. The Russian air force has reportedly denied that the identification system could be intact, since security measures would automatically destroy the friend or foe device.

The Russian fighter was flying to the Kaliningrad exclave before it veered into Lithuanian

airspace and crashed September 15. Crossing into Lithuanian airspace was blamed on a malfunction in the plane's navigation system. The Russian pilot safely ejected and is currently under house arrest in Vilnius. The former Soviet republic of Lithuania joined the NATO security alliance in 2004.

## Putin faces a busy schedule over the coming months

Russian President Vladimir Putin is to face a busy schedule over the coming months, it was reported last week. On October 5, Putin is to receive Tajik President Emomali Rakhmonov, due to arrive in Moscow for the opening of the Days of Tajik Culture festival, presi-

dential aide Sergei Prikhodko told Interfax last Thursday.

On October 5 and 6, Putin is to attend a summit of the Central Asian Cooperation Organisation (CACO), due to be held in St. Petersburg. In the third week of October, Moscow will host a conference of

the heads of government of the Shanghai Cooperation Organisation, where Putin is expected to meet with SCO premiers. Putin's preliminary October schedule includes a possible meeting with the Thai Prime Minister, who is due to visit Russia next month,

Prikhodko said. A visit to the Netherlands in early November will be followed by a trip to South Korea on November 18-19, where Putin will attend an APEC summit in Pusan, before travelling on to Japan for a working visit, Prikhodko said.

# Duma passes draft budget

Stabilisation Fund will amount to 1.3 trillion rubles

Russia's State Duma passed the 2006 draft federal budget on the first reading, it was reported last week. The document was passed by a vote of 331 to 95, with one abstention, RBC reported last Thursday. The second reading is scheduled for October 14, 2005.

The draft budget is based on the economy ministry's estimates for inflation at 7 to 8.5 percent, the average price of Urals oil at USD 40 per barrel and the threshold price of oil - used in forming the stabilisation fund - at USD 27 a barrel. The ruble/USD exchange rate is projected to be 28.6 ruble/USD, and the ruble is expected to strengthen by no more than 4 percent. Budget revenues are projected to be 5.46 trillion rubles (about USD 192.5 billion).

Spending is set at 4.27 trillion rubles (about USD 150.5 billion), including 202.482 billion rubles (about USD 7.1 billion) in debt servicing. Surplus is expected to be 776.228 billion rubles (USD 27.35 billion).

Boris Gryzlo, chairman of the State Duma, said the 2006 could become "a budget of missed opportunities" but it was becoming "a budget of development." He said it could



The Russian state Duma in Moscow

solve both economic and social problems.

"Those questions were discussed at today's meeting," he noted, adding that the 2005 budget was almost nine times larger than the 1999 budget, as expressed in dollars. It means that the money supply increased, and the government

had to regulate it properly.

Gryzlov said a number of indicators would have to be finalised by the second and third readings. The federal budget surplus in 2005 will amount to 7 percent of GDP, and by the end of the second half growth in GDP may reach 6.5 percent, Russian Prime

Minister Mikhail Fradkov said last Tuesday, Interfax reported.

"The Stabilisation Fund, taking early repayments to the Paris Club into consideration, will amount to 1.3 trillion rubles," Fradkov said at a meeting of the Eurasian Economic Community interstate council.

## Russia to repay USD 28 bln to Paris Club debt

Russia is in a position to repay USD 3-5 billion of its external debt early, by the end of this year — on top of the 18.3 billion USD it has repaid early since January, said Finance Minister Alexei Kudrin last week.

Kudrin's spokesman said Russia will propose the idea to its creditors. He added that in 2006, Moscow could repay USD 10-15 billion early.

The spokesman put Russia's entire external debt at approximately USD 100 billion, of which USD 28 billion is

Paris Club debt that matures in 2030.

Russia is ready to pay all of its remaining debt to the Paris Club of creditors at once, but it depends on a decision by the creditor countries, Russia's Finance Minister Alexei Kudrin said last Wednesday, cited by the local media.

Kudrin was speaking at an investor conference in Moscow. "We would be ready to pay the full sum, but it is limited by other factors," said the minister, quoted by RIA Novosti. He explained that a

number of creditor countries have set certain limitations on Russia's full repayment of debt.

"Our decision is not the only thing necessary, we also need a decision made by the governments of these states," said Kudrin. He went on to say that a number of creditor countries are interested in receiving revenues from Russian debt on schedule.

Some countries have issued bonds that are tied to the maturity date of the Russian debt. According to MosNews, Germany issued Eurobonds sec-

ured by Russian debt worth USD 6 billion, for example.

"Such (situations) demand a special analysis of the possibility to repay this debt (early)," noted the head of the Russian Finance Ministry.

MosNews reported that at the beginning of 2005 Russia's debt to the Paris Club of creditors amounted to USD 43 billion. In May Russia reached an agreement for an early repayment of USD 15 billion of this debt. Today Russia's debt to the credit organisation amounts to USD 28 billion.

## Sales tax not to replace VAT before 2009

The head of the Russian presidential administration's expert board told journalists last Wednesday on the sidelines of an investment conference in Moscow that the new sales tax instated to replace value-added tax (VAT) will not be introduced before 2009.

"The projections have been made and the text (of the proposal) is ready," Arkady Dvorkovich said, referring to the proposals that will be submitted to the cabinet.

He said, however, that the

final decision "should be made by politicians, noted RIA Novosti news service. "I, for one, believe that sales tax is preferable, while the biggest risks are involved in the uncertainties of the transition period," Dvorkovich said.

VAT and sales tax are variations of turnover tax, but, whereas VAT is collected as a product moves down the line from producer to end consumer, sales tax is a consumption tax that is collected only once, at the point of purchase.

The current VAT rate in Russia is 18 percent with a preferential rate of 10 percent for "socially important" staple goods.

Russia used sales tax in 1998-2003, simultaneously with VAT, but it was then abolished. Dvorkovich had said earlier that VAT could be replaced with sales tax in March 2005, when the head of the Expert Board addressed the possible abolition of VAT in 2007 with the simultaneous restoration of a 10-15 percent sales tax.



Arkady Dvorkovich

## Russia won't join WTO on unfavourable terms

Russia won't join the World Trade Organisations on disadvantageous terms, Russia's Economy Minister Alexei Kudrin told reporters in Washington, RBC last Wednesday reported. As an example, he referred to Ukraine, which he said was entering the world trade family on unfavourable conditions. "We won't join WTO under such conditions," he said. Russia is in the final stages of its WTO negotiations with several nations. Even if an agreement on Russia's joining the WTO was reached before the end of the year, the technical procedure of joining would take up to six months, Kudrin noted. In earlier remarks, the finance minister said the question of Russia's entry into the group of the world's seven richest nations would be solved gradually. He said Russia's being outside such organisations as WTO, coupled with its debt to the Paris Club, prevented it from joining the seven-nation group. Next year, Russia will hold the rotating chair of the G8 group, and it would host two meetings of the group's financial ministers, Kudrin said.

## Incomes lower than 2004, may rise by December

Russian people's real incomes in January-August this year were lower than last year but may top 2004 indicators by December, the ministry of economic development and trade said last Monday. According to the ministry's socioeconomic review, real incomes went up by 8.5 percent in January-August 2005, compared with 8.9 percent in the same period last year. In August, real incomes increased by 8.1 percent against 7.5 percent last August. The ministry forecasted a 9.4 percent growth in incomes by the end of this year against 8.4 percent in 2004. Real wages grew by 8.3 percent in January-August 2005 compared with 13.5 percent in the same period last year, and by 9.3 percent in August against 11.6 percent last August. The ministry said real wages would grow 10.9 percent by the end of this year, compared with last year's growth of 10.6 percent.

## Fitch rates Russian bank's subordinated loan

International Rating Agency Fitch Ratings said last Thursday it has assigned a long-term B rating to a subordinated loan of Or-ICB SA, a Luxembourg-based special purpose vehicle of Russia's OJSC Industry & Construction Bank (ICB), the company said in a statement. The USD 400 million 6.2 percent loan, due 2015 with an interest rate increase in 2010, is to be used solely for financing a subordinated loan to ICB, the document said. ICB is the leading privately-owned bank in northwestern Russia and also one of the top 10 banks in the country with total assets of USD 3.6 billion, net loans of USD 1.9 billion, and shareholders equity of USD 0.3 billion in 2004, the statement said.

## Russia to write off USD 100 mln of debt

Russia is to write off debts worth around USD 100 million under the Heavily Indebted Poor Countries Initiative, Russian Finance Minister Alexei Kudrin told journalists in Washington, Interfax reported last Tuesday. The final sum has not yet been set. However, the minister said that the debt write-off is dependent on Russian participation in the International Development Association's 13th replenishment. "Russian participation in the International Development Association's 13th replenishment is relatively small, only 0.1 percent," Kudrin said. The debts of two more countries with GDP per capita similar to that of Heavily Indebted Poor Countries may also be written off, Kudrin said. He declined to name the countries as a final decision has not yet been taken on the issue.

## Companies raise USD 20 bln on stock market

Russian companies raised around USD 20 billion on the stock market so far this year, including USD 6 billion in Russia itself and USD 14 billion abroad, Oleg Vyugin, head of the Federal Financial Markets Service (FFMS), said last Wednesday at the Brunswick UBS investment conference in Moscow. "This is about 15 percent of the investment that companies have received in that time," Vyugin said, quoted by Interfax. If loans are added you get around a third of all investments in Russian companies, he said.

## MOLDOVA

### International Transdnistria conference postponed

An international conference on the Transdnistrian settlement due to have been held in Chisinau on September 28-30, was postponed last week, Moldova's Integration Minister Vasile Sova told Interfax. The conference will be held before December 2005. There are many issues in need of discussion. We plan to organise a highly representative conference involving foreign ministers, Sova said.

The conference was to be attended by officials from the countries involved in talks on the Transdnistrian settlement and representatives of Tiraspol, he said.

The minister also said that the conference had been postponed at the initiative of the European Union and Russia. He also noted that the postponement was probably due to the invited parties' large workload and the participants' wish to get acquainted with the new situation following consultations in Odessa, and the European Union and the United States joining the process.

Appearing on Moldova's PRO-TV television channel with chief of the Organisation for Security and Cooperation in Europe's mission William Hill, Soba denied speculations that Moldova could quit the talks, since the US and the European Union were not to participate as fully-fledged members in the talks and would hold only observer status.

He confirmed that observer status practically does not differ from the status of full-fledged negotiator. Sova and Hill said that a meeting of the parties involved in the Transdnistrian settlement last week was a serious step towards the settlement of the Transdnistrian problem.

## BELARUS



*Belarussian members of opposition hold portraits of missing people as Belarus riot policemen block them during a protest rally in Minsk, September 16, 2005*

### Belarus rejects plan to jam EU broadcasts

Belarus will not jam European Union broadcasts even if they are aimed at undermining the country's government, officials told Interfax Wednesday before last. Belarus' Ministry of Communications, which censors most domestic media, had considered and rejected a plan to interfere with EU-sponsored programming targeting the former Soviet republic, the report said, citing unnamed top managers in the ministry.

Earlier in September the EU announced a two million Euro tender for continuous radio and television programming to be produced in Europe, and aired in Belarus. The first phase of the project would expand Deutsche Welle's Belarussian and Russian-language programming in the region.

President Alexander Lukashenko called the plan an attack on Belarussian sovereignty, and threatened to jam the transmissions. This summer the former collective farm boss branded a Polish project to extend Warsaw-produced programming to Belarus' half-million ethnic Poles "nothing less than the creation of a fifth column inside Belarus." A ministry of communications review of programming already aired by foreign news agencies critical of the Lukashenko regime - among them Voice of America, Deutsche Welle, and BBC - have concluded the best response is domestic media reports presenting "an alternate point of view," the report said.

# Alrosa discusses co-branding with Tiffani, Cartier

**A**lrosa, Russia's Yakutia-based diamond monopoly, is discussing the possibility of co-branding with Tiffani & Co and Cartier, Alexander Nichiporuk, Alrosa's president, said last Tuesday at the Russian Luxury Forum 2005 in Moscow. He said the discussions had not yet reached the negotiating stage, but that the sides had indicated they were mutually interested, according to Interfax.

Nichiporuk also said that Alrosa and Kristall, Russia's biggest diamond cutting enterprise, had created a joint brand to promote their products on the market. He said, though, that Alrosa and Kristall, which is from Smolensk, were not planning to create a joint venture, because the federal government was thinking about entering Kristall in Alrosa's charter capital as it increases its stake in the mining company.

Alrosa mines 23 percent of the world's diamonds. Alrosa has registered its ARCOS office in Hong Kong, which will start to sell uncut diamonds within a month Nichiporuk added. Nichiporuk said China was a very promising market.

"They are waiting for us there, and we see demand for our products," he said. Kristall, Russia's biggest diamond cut-



*An open cast diamond mine in Mirny, Russia*

ting enterprise, could help Alrosa when it enters the Chinese market, Nichiporuk said. Kristall already has an office in China. China has the world's biggest diamond cutting industry by capacity and it the world's biggest market by consumption, Nichiporuk said. He also said Alrosa planned to send an expedition to Africa to carry out geological exploration at sites in Angola and Congo, and that it would spend USD 5-6 million on this in 2005, mostly

on preparing equipment.

Meanwhile, a decision in principle to increase the federal government's stake in Alrosa will be reached by the end of 2005, Nichiporuk said.

He said Alrosa's rent payments to Yakutia were the main issue and that the federal stake could not be increased until that has been resolved. Alrosa pays Yakutia about 10 billion rubles a year for the rent of property in the republic. Russian Finance Minister Alexei Kudrin, who

chairs Alrosa's supervisory board, has said the issue would be resolved without disadvantaging Yakutia. Kristall of Smolensk — Russia's biggest diamond cutting plant — is one of the enterprises that could be entered into Alrosa's charter capital to facilitate the increased federal ownership. Nichiporuk said Alrosa would welcome that because it would enable the company to reach its consumers direct, without a go-between.

## Norilsk Nickel to hit production target

Norilsk Nickel, the world's biggest producer of palladium and nickel, plans to hit its 2005 production target, the company's deputy director general said last Thursday, Interfax reported. Tav Morgan said that expected palladium and platinum production for 2005 was three million ounces (96.45 tonnes) and 700,000 ounces (22.51 tonnes) correspondingly. The company produced 1,483,000 ounces of palladium and 355,000 ounces of platinum in the first half of 2005, Morgan

said. He gave no comparison.

The figures were for the Polar branch and the Kola mining and metallurgical company in Russia and did not include results of Norilsk Nickel's subsidiary in the United States, Stillwater Mining Company.

Morgan also said the company, which is the seventh largest in Russia accounting for 1.9 percent of GDP and 2.8 percent of the industrial output, would publish data on palladium, platinum, nickel and copper output quarterly and would

publish information on platinum-metal reserves by the end of 2005. The Norilsk Nickel company, for the first time disclosed statistics on its production of such metals after a presidential decree declassified such information early in 2005. Stillwater Mining Company is a US corporation in which Norilsk Nickel holds a controlling stake.

"In addition, Mr. Morgan informed that standard quarterly production release will be expanded to include palladium

and platinum production figures, and that the release of reserve information regarding these metals is planned for later this year," the statement said.

"Since the beginning of this year Norilsk Nickel has been releasing quarterly nickel and copper production figures of its Polar Division and Kola MMC within 30 days of the end of the quarter. Starting from the third quarter 2005 the standard press release will also include production figures of palladium and platinum," the statement read.

### Komatsu to open Russian plant

Komatsu, Japan's No. 1 manufacturer of construction equipment, said last Tuesday that it was planning to set up a production facility in Russia, local media reported last Wednesday.

"Komatsu Ltd has plans to open a machine-building or a component-making facility in Russia," the company's Moscow office, Komatsu CIS Co, said in a statement.

Earlier last Monday, Bloomberg cited a Komatsu executive as saying that Komatsu was planning to invest 3 billion yen (USD 27 million) into a Russian plant, most likely near Moscow or St. Petersburg.

The plant, which would employ up to 300, would annually produce 600 units of 30-tonne excavators, Taizo Kayata, Komatsu's executive officer in charge of overseas marketing, told the news agency in Tokyo.

### Microsoft sales in Russia up 48% in 2005

Microsoft sales in Russia and the CIS grew 48 percent in the 2005 financial year, which ended on July 30, 2005,

Birger Sten, director general of the company's Russian branch Microsoft Rus, told a press conference in Moscow last Tuesday.

Microsoft sales in the 2005 financial year exceeded USD 180 million, Sten said, Interfax reported.

The company plans to increase growth in sales by at least 30 percent in the 2006 financial year, Sten said. Sales of Microsoft Windows and Microsoft Office accounted for 58.3 percent of the company's total sales in Russia in the 2005 financial year, Sten said. Sales of Windows XP grew 46 percent and amounted to 1.5 million licensed copies in Russia in the reporting period. Microsoft Office sales grew by 74 percent.

# Culture minister calls for halt of Boyana Film sale

Bulgaria's new Culture Minister, Stefan Danailov, has sent a letter to the country's Prime Minister, Sergey Stanishev calling, for a review or halt of the deal for the sale of the state film centre Boyana Film to the US-based group Nu Image, it was reported recently.

Danailov wants the privatisation deal to halt and a new concessionaire should be found, Bulgarian news agency reported. Danailov said that the letter would explain the deal for the Boyana film centre to Stanishev. He also announced that just a day earlier he had a meeting with Bulgarian filmmakers, who strongly oppose the deal.

Danailov stressed that the film centre should be subjected to privatisation, but added that it should happen in a different way. According to him, the current deal for the sale "hides too many questions." Danailov said that the privatisation deal should be halted and that a new concessionaire is found.



American movie star Steven Seagal arrives at Sofia airport

Local filmmakers have repeatedly slammed the privatisation procedure as faulty and not transparent, suited to fit the profile of one particular bidder. The bone of contention for the local film guild is the attractive land in Boyana, whose estimat-

ed price towers to 900-1,000 Euro per square metres.

Bulgarian film makers fear that investors would buy Boyana for its land and liquidate the studio and demand that these are kept out.

Under the terms of the ten-

der the buyer is obliged to keep the core operation of the company for at least 10 years after the sale.

The new owner will be prohibited to mortgage or sale the land of the Film Centre for a period of five years.

## Uniform pricelists for foreign, local tourists

The council of ministers approved amendments to the tourism act envisaging the setting up of a special state body, a State Tourism Agency that will manage, coordinate and control tourism related activities, Bulgarian Deputy Culture Minister Dimiter Hadjinikolov said at a cabinet meeting on September 21. The State Tourism Agency will be responsible for preliminary control, and the committee for consumer right protection will exercise follow-up control.

The bill appoints the council of ministers to structure the State Tourism Agency and determine its composition and rules. Amendments to the tourism act and about 20 more laws are proposed to reflect the creation of the new body.

The bill envisages setting up uniform prices for Bulgarian

and foreign tourists, Hadjinikolov told Sofia news agency recently. Bulgaria, which has ambitions to turn into a leading tourist country in the region has affirmed the decision of uniform pricelist.

Special provisions ban the charging of different prices for any tourist services and in any facilities. The proposed amendments separate preliminary control from follow-up control in tourism, Hadjinikolov said. The different prices for Bulgarian and foreign tourists were considered as a discrimination by the European Union and Bulgaria was asked to make some changes in its legislation, before joining the Union in 2007. In future, prices for both foreign and Bulgarian guests will be equal. According to the media in Sofia, the Bulgarian

government plans strict and severe sanctions if regulation is not implemented. Violations of the amendment carry a fine ranging between 1,000 and 15,000 lev. However, the decision to equalise the prices of tourist services might be critical for most Bulgarian tourists, who have enjoyed their lower prices up to this moment.

The practice of double prices, which were three times higher than prices for Bulgarian tourists, were introduced during Communist regime and were applied for number of years. Mostly Germans opposed the "price discrimination" in the last years. At the same cabinet meeting, it was also decided to restore the tourism authority. The tourism sector was transferred under the helm of the culture ministry by the previous

government and stayed there for less than half a year.

The tourism sector has turned into a main one for Bulgaria's economy. A total of 3,512,543 foreigners visited Bulgaria from January to August this year, up by 6.33 percent compared to the same period last year. Meanwhile, Bulgarian tourism companies were presented in Moscow. Bulgaria is one of the countries, partaking in the biggest Russian tourism event of the season - the tourism expo "Relax 2005" in Moscow.

Around 1,000 tourism firms were presented of which 556 being foreign and among those some more Bulgarian companies have their own stands. The number of countries taking part in this year's exhibition (67) sets an all-time high.

## Vivatel announces its official tariffs

Bulgaria's new mobile phone operator, Vivatel, announced on September 25 that it will cut prices by 22 percent. Vivatel's competition to the current operators, MobilTel and Globul, was expected to bring down prices. A statement by Vivatel said that the company would offer prices that would be on average 22 percent lower than those of its competitors, Sofia news agency reported.

The tariffs show that Vivatel subscribers will pay the same

call prices as clients of the other mobile phone operators in Bulgaria. The service fee, will be only five lev. The new mobile operator announced in a press release that it aims to stimulate the competition on the local mobile service market and to decrease the prices in the country, which are among the highest in Europe.

The company is to offer the cheapest pre-paid and international calls. Vivatel's management already informed the state

Communications Regulation Commission (CRC) over its tariffs. MobilTel and Globul will also present new services or lower prices, to counter Vivatel.

The two companies have not announced yet what their new offers will be. Vivatel will enter the communications market by Christmas. Vivatel will launch its activities with business and private subscription plans. A recent press report even said that the service would be launched in November.

The licence for the third GSM operator was awarded to BTC last June. Plans were to launch the third mobile network this April, but a delay was imposed because of auctions for UMTS licences and BTC Mobile negotiations with Bulgaria's two existing mobile operators, MobilTel and Globul.

Currently 5.2 people in Bulgaria use the mobile phone services of MobilTel and Globul. Most use pre-paid services, Dnevnik newspaper reported.

## Azerbaijan, Bulgaria to boost business ties

Azerbaijani President Ilham Aliyev on his recent visit to Bulgaria explored the country's business opportunities. A meeting was held on September 24 between Bulgaria's President Georgi Parvanov and Aliyev in the coastal capital Varna, Sofia news agency reported. Both leaders agreed that infrastructure development would help to boost economic relations. Aliyev met Bulgarian business representatives and was acquainted with the peculiarities of the Bulgarian tourism sector. He urged Baku to consider other energy projects except Baku-Tbilisi-Ceyhan Pipeline, including Burgas-Alexandroupolis and Burgas-Vlora pipelines. Bulgaria and Azerbaijan vowed to strengthen their economic relations. Aliyev said both countries should boost ties in power engineering, infrastructure, farming, food industry, construction and pharmacy. The two heads of state signed a joint declaration, calling for intensifying aid in EU integration.

## New low-cost Wizz Air flies to Sofia

Wizz Air, a new European low-cost airline which flies Sofia-Budapest route four times a week, completed its first flight with Sofia as its destination, Bulgarian news agency reported recently. The tickets for this flight started selling in Bulgaria three months before and 155 passengers were on board for this flight, which amounts to 86 percent of the plane's capacity. The airline took off at the end of May from the southern Polish city of Katowice, initially flying to Budapest, London's Luton airport, Rome, Milan, Venice and Berlin. Wizz Air focus on the markets of central and eastern Europe and currently works on expanding the number of flights out of other Bulgarian airports and increase the destination sites throughout Europe.

## German Siemens to upgrade Varna TPP

German engineering giant Siemens has concluded a contract to upgrade Units 1, 2 and 3 of the Varna Thermal Power Plant worth 11 million Euro, it was reported recently. This project will be implemented over a period of three years, the company told Sofia news agency. The contract envisages design, supply and assembly of automated equipment. Siemens will use the services of Bulgarian engineering partners. The first stage of the upgrading of the other three generating units (4, 5 and 6) will be completed by the end of October. The second stage of the plant's modernisation will result in the creation in an integrated system of management of the technological processes in all six generating units of the plant.

## Finance minister, IMF, World Bank discuss debts

Bulgaria's Finance Minister Plamen Oresharski recently arrived in Washington to attend the annual meetings of the executive boards of the International Monetary Fund (IMF) and the World Bank. The delegation, led by Oresharski, met with IMF Executive Director Jeroen Kremers, IMF European department Director Michael Deppler and IMF mission leader for Bulgaria Hans M. Flickenschild. During the meetings, IMF urged that Bulgaria writes off USD 105 million debts of 28 of the world poorest nations. According to Bulgarian news agency, the IMF experts believe the debts of the poorest nations must be cancelled as these countries are unable to pay the debt. Nicaragua is Bulgaria's greatest debtor, followed by Ethiopia, Tanzania, Mozambique and Zambia.

## Bulgarian bank selects i-flex

Leading IT solution provider i-flex Solutions announced on September 22 that First Investment Bank, one of Bulgaria's leading banks, has selected it to realign technology for growth in operations, Sofia news agency reported. As per the agreement, the full suite of i-flex's products FLEXCUBE Universal Banking Solution, FLEXCUBE@, Reveleus for Risk Management - Basel II, Enterprise Financial Performance would be implemented at the bank. Additionally, i-flex team will manage the change and migration of the technology platform with its TDMS (Technology Deployment and Management Services) and SI Systems Integration services. Banks in Bulgaria are revamping the technology infrastructure to prepare for Euro and join the EU and i-flex is strongly positioned to help banks in this region.

## Better water quality coming

Total costs enforced by the European directives' implementation in the drinking water and urban waste water fields amounts to some 14 billion Euro, news agencies reported last Thursday. It is estimated that until 2018, when the transition periods in this field will come to an end, total investments required for the implementation of these directives will reach 14 billion Euro. Starting next year, huge investments will be necessary for the water quality improvement in Romania, in conformity with the European Commission's Water frame directive from 2000 on the quality of water. The funds required for these investments will be derived from European programmes, such as ISPA and SAPARD and from cohesion funds in a proportion of 40 percent, the remainder coming from the state budget, local budgets and public-private partnerships.

## Romania, IMF to launch talks

Romania will hold a new round of negotiations with the International Monetary Fund (IMF) this month on the country's two-year precautionary standby accord, the finance ministry said last Tuesday in a statement. The government had agreed with the IMF earlier to cut this year's budget deficit to 0.74 percent of gross domestic product (GDP) from last year's 1.2 percent, but consequently hiked it to one percent after devastating floods. "We agreed to restart discussions on the accord with the IMF," Finance Minister Sebastian Vladescu said in a statement after meeting Fund officials in Washington. "Starting with October 20, an IMF team will come to Bucharest." The Fund's experts will discuss with the government the budget for this year and for 2006, as well as a medium-term fiscal programme running until 2010.

## Experian enters Romanian market

Experian, the global information solutions company, said last Thursday in a statement that it signed an agreement to acquire Expert Credit Bureau (ExCB) from UCS Romania. ExCB has been in operation since early 2005, serving clients from the banking and non-banking industries in Romania. ExCB currently holds mostly negative data but plans to move into both positive and negative data processing shortly. "This acquisition represents a significant increase in Experian's consumer information activities in the new Europe," said John Saunders, chief executive, Global Operations, Experian.

## Can-Pack eyes major turnover

Polish-American Can-Pack company said Wednesday before last it concluded an investment of 45 million Euro in a Romanian aluminium packaging factory for soft drinks and beer, news agencies reported. "Up to 2007, we foresee an annual sales value of 45 million Euro and, were our predictions prove to be true, we would increase our production capacity at our factory in Bucharest through investments of around 30 million Euro so that the sales could jump to 100 million Euro," Can-Pack President and Director General Wieslaw Smulski said. This investment covers a land of 22,000 square meters and benefits of equipments imported from the United States and Germany.

## OTP Bank boosts capital

Hungarian bank OTP Bank said last Wednesday it will increase the share capital of its branch OTP Bank Romania by 30 million Euro, Avereas newspaper reported. Through this capital inflow, OTP Bank Romania aims to expand its network of branches, a process which is set to start in October, and release services on the retail market on the basis of a new IT system. Following the growth by 30 million Euro, the bank's share capital will reach some 50 million Euro. OTP Bank bought ROBank for USD 47.5 million in 2005, announcing significant investments worth almost USD 100 million for the expansion of the activity from Romania.

## Petrom to buy stations abroad

Romanian energy group Petrom discussed the purchase of petrol station networks in Bulgaria and Serbia, with negotiations launched at the same time, and the finalisation of a transaction might take place at year-end or early next year, ACT Media News Agency reported last Thursday. As the markets in Bulgaria and Serbia have reached a maturity level, buying petrol stations instead of greenfield investments is a more appropriate strategy for extension, claim the company's representatives. Concerning the development of the local network, Petrom will allocate funds to build some 50 new units in the next 18 months, while another 50 unprofitable units will be closed down. Some petrol stations will enter a revamping programme, and their activity will be interrupted temporarily.

# Romania slaps 16% tax on dividends, interest gains

Revenues from dividends, gains from the capital market, as well as from interests of deposits established after January 1, 2006 will be taxed 16 percent starting next year, according to Romania's bill for amending the fiscal code, news agencies reported last Thursday.

The category of revenues taxable by 16 percent includes the interests from term deposits, deposits at sight and the current accounts established after January 1, 2006, as well as the obtained savings instruments or civil contracts concluded after this date.

If these instruments are or were established prior to January 1, 2006 and have the falling due after this date, the tax will be calculated by applying the quota from the moment of establishment.

## Interest gains

Regarding the interest gains, the tax will be calculated and held from the payers of such revenues in the moment of registration in the current account of in the titular's deposit account, respectively at the time of redeeming, in the case of savings instruments.

In the case of sums received as interest for loans granted based on civil contracts, the calculation of the owed tax is carried out at the time of interest payment.



The parliament in Bucharest, Romania

Transferring the tax on the revenues coming from interests is done monthly, until the date of 25th of the month next to registering or buyback, in case of savings instruments, respectively at the moment when the interest is paid, for revenues of this kind based on civil contracts.

The obligation to calculate and hold the tax on the dividend revenues belongs to legal entities once with the payment to shareholders or associates, and the deadline for transferring the tax is until 25th of the

month next to the one when the payment is done.

## Tax payment terms

In case of the dividends that were distributed, but not paid to shareholders or associates until the end of the year when the balance sheet was approved, the term for paying the tax is until December 31 of the respective year.

A 16 percent quota will be applied on the gains from the transfer of the shares obtained

during the year, with the optional possibility to finalise the tax, at the end of the year, applying the 16 percent quota on the net gain.

The taxation for the gain determined during the year from shares transfer is of 16 percent, the tax calculated in this way being final.

The tax quota for the revenues made from selling the properties within personal patrimony will be reduced, next year, from 10 percent down to 2 percent, but will be applied on another taxable base.

## Fitch affirms Bancpost's ratings

Fitch Ratings said last Thursday it affirmed Romania-based Bancpost's (BP) ratings at long-term BBB- (BBB-minus), short-term F3, support 2 and individual D. The outlook on the long-term rating is stable. The long-term, short-term and support ratings reflect the strong potential support BP can expect to receive from its majority shareholder EFG Eurobank Ergasias (Eurobank," rated A-(A minus) /positive outlook) of Greece and are constrained by the country ceiling BBB- (BBB-minus) for Romania.

The individual rating reflects potential asset quality problems from rapid loan growth and low capitalisation. These are balanced by improving profitability and the substantial restructuring it has undergone as a result of the increasing involvement of its parent in its activities.

"BP has been undergoing major restructuring following the acquisition by Eurobank, including the implementation of a centralised IT system, network rationalisation and upgrading of risk management procedures," said Gulcin Or-

gun of Fitch's Financial Institutions group.

While this has imposed additional short-term costs on BP, Fitch views this positively, and the bank should be better placed to grow lending and further improve its profitability.

However, margins will be under pressure in the medium-term through both lower nominal interest rates and intensifying competition. BP was established in 1991.

Eurobank acquired a stake in it in 2000 and it currently holds approximately 63 percent stake at the bank.

Eurobank plans to exercise its call options on the combined 7 percent interest held by the European Bank for Reconstruction and

Development (EBRD) and International Finance Corporation (IFC) by end-2006. BP offers banking products to corporates, small- and medium-sized enterprises and retail clients through its 161 branches and offices throughout Romania and the network of the Romanian Post Office. In the end of 2004, BP stood for 4.75 percent of system's assets.

## Trade gap widens to 4.3 bln Euro in January-August

Romania's trade gap widened to 4.27 billion Euro in the first eight months of this year from 2.8 billion Euro in the same period of 2004, as energy imports continued to outpace rising exports, the National Statistics Institute said last Thursday. The trade deficit

raised the current account gap for the first seven months of the year to 2.9 billion Euro from 1.8 billion in the same 2004 period. Romania changed its current account gap ceiling to 7.75 percent of gross domestic product (GDP) this year from a previous 6.9 per-

cent target, but analysts said the new target is too ambitious, due to a booming domestic consumption.

The government's prognoses agency said the current account deficit might widen to 8.1 percent of GDP this year because of an expected rise in

consume. Eight-month exports went up by 16.9 percent year-on-year to 14.38 billion Euro with transportation, metallurgical products and minerals posting rises of between 23.5 and 77.6 percent and taking 34.1 percent of the total, the statistic institute said.

## FYROM

# Crvenkovski says FYROM can set integration example

**F**YROM can set an example to other Balkan states on how to go about European integration, President Branko Crvenkovski said last Tuesday at the end of a two-day visit to Vienna. In an address to the Danube and Central Europe Institute, he said a successful example by his country could show the entire western Balkans region "that the goal of EU membership can only be achieved if one strictly keeps to the principles of developing democracy, tolerance, the rule of law, and economics."

The status of a membership candidate, hoped for by FYROM this year, would be a guarantee "that the difficult work, and persistence in implementing reforms, make the goals (of EU integration) reachable."

Crvenkovski reiterated according to the text of his speech that "the integration of the Republic of FYROM in the European Union is our strategic goal." Most important in the immediate future would be the



*FYROM President Branko Crvenkovski, speaks on the second day of the 2005 World Summit of the United Nations at UN headquarters in New York City, September 15, 2005*

economic aspect of building up a functioning market economy.

The head of state's comments came after meetings last Tuesday with Chancellor Wolfgang Schuessel and President of the Economics Chamber Ch-

ristoph Leidl.

Last Monday, Crvenkovski outlined FYROM's prospective EU schedule. He said he first hoped for a positive "avis" - position by the E.U. Commission on prospective member-

ship talks - this November.

Then FYROM could be officially recognised as a candidate member in December, and start its negotiations in 2006. The goal was to join the E.U. in the year 2010.

## Producer price index swells 4.7% in August

FYROM producer price indices of industrial products increased 0.4 percent in August 2005 compared to July 2005, it was reported last week. In comparison with the average prices in 2004, the price indices were up by 4.7 percent, and in comparison with the same month of 2004 they were up by 4.2 percent.

According to The Reporter, the producer price indices of industrial products in August 2005 compared to July 2005 increased in the main industrial groups such as: energy by 1.3 percent and non-durable consumer goods industries by 0.5 percent.

The producer price indices of industrial products in the group intermediate goods industries, except energy, were down by 0.3 percent.

The producer price indices of industrial products in August 2005 in comparison with July 2005 in the section mining and quarrying were on the same level.

## FYROM mulls recognising independence of Kosovo

FYROM is ready to recognise Kosovo's independence after Albania does and after Pristina and Belgrade sign an agreement, FOCUS News Agency reported on September 27, citing sources linked to the government. According to Skopje's Television Channel 5, Ali Ahmeti, leader of the Democratic Union for Integration (BDI- An Albanian party in Coalition government), pointed out that Kosovo's independence would bring peace and stability to FYROM and in the region. Ahmeti made this statement right after his meeting with the People's Movement for Kosovo in Pristina. Such statement could represent the common opinion of FYROM society. Government circles believe that in the next 18 months, the international community will concentrate on resolving the Kosovo issue and convincing Belgrade to recognise Kosovo's independence. January 1, 2007 could be considered possible independence day for Kosovo, according to the media.

## KOSOVO

## Historic visit of Kosovo minister

Kosovo's minister for culture, media and sport visited Belgrade on September 23, the first such visit by a member of the Kosovo government to the Serbian capital, B92 reported.

Earlier Astrit Haraqija said that there is no political agenda for the visit, but that he will meet his Serbian counterpart, Dragan Kojadinovic, to discuss the cultural heritage and archaeological treasures of Kosovo. Special attention will also be paid to the process of returning all archives taken from Kosovo, he had said.

The deputy leader of the Kosovo Progressive Party, Ylber Hysa, warned that the meeting between Haraqija and Kojadinovic must not be misused or

manipulated in any way.

This meeting between Kojadinovic and Haraqija was scheduled to take place more than a month ago, but was postponed after Kojadinovic requested more time for officials in Belgrade to familiarise themselves better with the documents forwarded from Pristina ahead of the meeting.

Meanwhile, just before the visit, a top official said that Belgrade's offer of "more than autonomy, less than independence" to its breakaway province Kosovo means it would get its own authorities - but under Serbia's sovereignty.

"The Albanian side in Kosovo gets executive, legislative and judicial power,"

said Sanda Raskovic-Ivic, head of Belgrade's committee in charge of Kosovo. "Under UN Resolution 1244, the Serbian state is guaranteed international and territorial sovereignty," she said, explaining a phrase coined earlier as Belgrade's offer to the majority Kosovo Albanians.

Raskovic-Ivic said it meant that Serbia would retain control over borders, defence, foreign affairs, customs, fiscal and monetary policies. In addition, it wanted a demilitarised Kosovo.

Six years since NATO intervened ethnic fighting between Albanian rebels and Belgrade's security forces, Kosovo remains administered by the UN and without a clear look ahead.

## ALBANIA

## Late payments put Olim in hot water

Olim Director General Arian Mene recently declared that his company was charged with "a huge fine of USD 3 million," Albanian Economy reported. "Since two days now, the Durres customs have blocked 2,000 tonnes of oil requiring that we pay USD 3 million in taxes and late fees on fines before we are restored the right to import from the Port of Durres again," Mene said. On the other side, the Durres Customs' Director General, Arben Bajraktari, said: "Olim has a debt of 275 million leks plus 59 million leks in interest owed to the Durres Customs according to an executive order issued by the Durres District Court." This debt was acquired in 2002, when an unrefined oil shipment imported to be processed by Olim resulted was analysed by the customs laboratory and reported to be refined oil instead. In 2002, the customs duty for refined oil was 10 percent and for unrefined oil it was just two percent. That fiscal difference, owed by Olim, was estimated at 257 million leks (about 2.5 million Euro). However, later due to company complaints, the Albanian Customs Administration asked the Italian customs to help conduct another set of analysis on the imported oil, which resulted, as claimed by Olim, to be unrefined oil. Nonetheless, last year the Durres customs insisted on its decision leading up to an executive order issued by the Durres District Court. On September 19, according to company officials, the Durres customs blocked a shipment of 2,000 tonnes of unrefined oil originating from Ukraine, estimated at USD 1.2 million.

## Albania, FYROM, Croatia team up for NATO entry

FYROM, Albania and Croatia confirmed on September 26 that they will further their cooperation to gain the membership of the North Atlantic Treaty Organisation (NATO), the MIA reported on September 26. According to the report, the chief of general staff of FYROM's Armed Forces, Miroslav Stojanovski, and his counterparts Pelumb Qazimi from Albania and Josip Lucic from Croatia issued a joint statement during their meeting in Ohrid, southwestern FYROM. The three Balkan countries will boost their cooperation in the direction of strengthening of joint efforts for Euro-Atlantic stability and security through consistent implementation of the Adriatic Charter, the statement reads. They expected to get an invitation for the NATO membership at the Alliance's summit next year, however, the Alliance's expansion with new members had been postponed for 2008, the MIA said. During the meeting, the chiefs exchanged their experiences in the defence reforms and their opinions on the perspectives of the further joint performance in the process of the NATO integration. The high military representatives from the NATO, the United States and other regional countries also attended the meeting. The Adriatic Charter was signed in May 2, 2003, in Tirana by the foreign ministers of Albania, FYROM and Croatia and the then-US Secretary of State Colin Powell.

## Watchdog launches formal probe over mobile market

The Albanian Competition Authority started a formal investigation over competition conduct of the two sole mobile operators in the country, Vodafone Albania and AMC Albania, Albanian-Economy reported on September 26. Competition Authority head Lush Perpali on September 23 asked for a listening seance and declared the beginning of investigations, stemmed by arguments in articles from a weekly newspaper, ABC. Another newspaper, daily Biznesi, had noted that Albanian contract customers of Vodafone, in 2004, were paying three times more than their Italian Vodafone counterparts. According to Biznesi, Vodafone Albania customers pay 2,340 Euro each year. Meanwhile Italian customers were reported as paying 922 Euro for that same period, Biznesi reported last August. Vodafone and AMC, for some time now, have been under continued accusations regarding their non-competitive conduct, mainly from media and the Telecommunications Regulatory Authority. However, both companies have continually denied these allegations. At the end of 2004, AMC Albania customers were reported at 638,728 with total revenues estimated at 121 million Euro and a net profit of 35 million Euro.

## SERBIA &amp; MONTENEGRO

## NBS takes over leasing firms

The decision on the implementation of Serbia's law on financial leasing, which refers to the issuing of permits and the granting of approval by National Bank of Serbia (NBS), has come into force, Ansamed reported on September 26. This decision sets the conditions on the basis of which the NBS can issue an operating licence to a company. On October 3, when the implementation of this decision is to start, the NBS will place leasing companies also under its jurisdiction.

## Montenegro sells 6 army facilities

The Fund for the Reform of the Serbia-Montenegro (SCG) Defence System concluded contracts on the sale of six military facilities in Montenegro, it was disclosed in Podgorica, Ansamed reported on September 21. The Fund announced the sale of the facility at Donja Arza promontory to the VEK consortium for 4.5 million Euro, the Kabala facility to the Belgrade company Ados for 1.65 million Euro, the Lazine facility to the Delanainvestment company from the British Virgin Islands for 681,360 Euro, the Oskorusa facility to the Norex Management company also from the British Virgin Islands, and the Brezino and Ubojno facilities to the company Rusinvestgub from Herceg Novi for 1.34 Euro.

## Jugosped, Putevi sales on the cards

The Privatisation Agency in Serbia announced tenders for the sale of 70 percent of the capital of Jugosped company from Belgrade and of Putevi from Cacak, Ansamed reported on September 22. The request for purchase of the tender documentation of Jugosped can be submitted by November 4 and the deadline for submitting a binding bid is December 2. Buyers interested in Putevi have until October 21 to submit their request for the purchase of the tender documentation, and they can send their binding bids by November 18.

## Fresh petrol price hike demands

The Serbian Ministry of Energy and Mining has sent a request to the ministers of finances and trade for the increase of oil derivatives prices, Ansamed reported on September 22. The ministry said that according to the applicable regulation on the price of derivatives, all conditions have been met to implement the price correction. If the finance and trade ministries accept the request, petrol at gas stations in Serbia could soon go up by around one dinars (0.01 Euro) per litre.

## Concession for Horgos-Pozega

The Serbian government will grant a concession for the construction, exploitation and maintenance of the Horgos-Pozega highway section, it was published in the latest issue of the Serbian Official Gazette, Ansamed reported on September 26. The concession will be granted on the basis of an open tender procedure consisting of two phases. In the first one there will be an assessment of the candidates and then those selected will be asked to submit their bids.

## Free shares for public workers

Serbian Minister of the Economy Predrag Bubalo has said that employees of public enterprises will be able to obtain 15 percent of the companies' shares free of charge, but only when the decision on the privatisation of these companies is taken, Ansamed reported on September 23. "The same rules of privatisation will apply to public enterprises as to socially-owned companies and there can be absolutely no word of the Serbian government enabling, through a separate law, the free distribution of shares only to employees of public enterprises and state agencies," Bubalo told the Novi Sad Dnevnik.

## Highest inflation in Europe

The Chairman of the Serbian Chamber of Commerce, Slobodan Milosavljevic, said that at the moment Serbia has the highest inflation in Europe, and that it could reach an annual rate of between 15 and 16 percent at the end of the year, Ansamed reported on September 22. He said this was "a bad economic indicator," and added that the Serbian government must secure single-digit inflation next year. In his words, this is creating considerable damage to the economy.

## CROATIA

## Sanader confident on EU appraisal

A week before the European Union is to discuss Zagreb's bid to join the Union, Croatian Prime Minister Ivo Sanader voiced optimism last Monday that his country's efforts to hunt down a key war crimes fugitive would be "adequately evaluated." A positive assessment would likely unblock Croatia's EU entry talks, which were put on hold in March due to Zagreb's failure to cooperate fully with the International Criminal Tribunal for the former Yugoslavia (ICTY), South East Times reported last Tuesday.

In December 2004, the EU set 17 March as the starting date of Croatia's accession talks, provided it arrested retired General Ante Gotovina and extradited him to the ICTY by that time. The fugitive - the UN tribunal's third most wanted indictee - is sought for his alleged role in the killings of 150 Krajina Serbs and the expulsion of more than 150,000 others towards the end of the 1991-1995 conflict in Croatia.

Croatia's leaders have repeatedly insisted that Goto-



Croatian Prime Minister Ivo Sanader arrives at a news conference after his meeting with EU Enlargement to Croatia with EU Commissioner of Enlargement Policy Olli Rehn in Luxembourg, April 26, 2005

vina - on the run since June 2001 - is not in the country. Authorities have been trying to convince Brussels that they are doing everything possible to meet their obligation to the UN court.

According to Zagreb, the late August arrest in Greece of Croatian businessman Hrvoje

Petrac, believed to be a key Gotovina supporter, is evidence of efforts it is making to catch the indictee. "Whether the negotiations start or not ... it remains Croatia's obligation to solve the Gotovina case," Sanader said last Monday. "In other words, we in Croatia respect the rule of law."

The EU Council of Ministers is expected to review Zagreb's membership bid on October 3, a day after a meeting of the so-called EU task force on Croatia. If Croatia is allowed to begin its accession talks before it has captured Gotovina, it might shelve further efforts to locate him.

## BAT to quit Croatia due to "hostile" environment

Cigarette giant British American Tobacco Plc has decided to leave Croatia after investing in a factory for eight years, claiming the Balkan country is "hostile" to investors, national radio reported on September 25, cited by Forbes.

"BAT has announced its departure from Croatia due to a hostile environment for foreign investors and legislation that

protects the monopoly of the state cigarette manufacturer," the radio said, citing unidentified sources in the company.

Representatives in Croatia for the maker of Dunhill, Lucky Strike and Kent cigarettes could not be reached for comment. At the same time, the local press in Croatia reported that a cigarette factory in Zadar where BAT has invested 70 million

Euro may soon go bankrupt.

The investment had assured BAT of more than 75 percent of the shares in the cigarette plant, but the privatisation was annulled earlier this year by a trade court in Zagreb. The court has not publicly stated the reasons for its decision, which may have led BAT to decide to quit the Croatian market, the local press opined.

When questioned by journalists, Croatian Prime Minister Ivo Sanader said he did not wish to comment on BAT because he "did not have sufficient information about the matter." The government "asked parliament last week to adopt a package of laws aimed at reinforcing the legal rights of investors," Sanader was quoted as saying.

## BOSNIA-HERZEGOVINA

## Anti-Mafia Caravan 2005 visits Prijedor

"Fighting Organised Crime and Education on Legislation" event, a part of the international "Anti-Mafia" campaign, visited Prijedor on September 26, securope.net reported.

The caravan, established in 1994 in Sicily, Italy, is focused on the phenomenon of Mafia and implements activities directed against organised crime, with the intent to offer an alternative in communities and environments used by organised crime for recruitment of new members. Starting this year, the Caravan expanded outside Italy, and after visiting Serbia and Montenegro and Albania, it came to BiH.

Under the auspices of the BiH Campaign, the Caravan presented its activities in Prijedor, on Major Zoran Kralica Square. Also, a presentation of "Fighting Organised Crime and Education on Legislation" discussion was held at Prijedor Theatre.

## Ashdown issues warning to Serbs

The international administrator in Bosnia, Paddy Ashdown, on September 22 issued a stark warning to the government of the Srpska Republic, the Serb entity within Bosnia, to finally reform their police force or else face international isolation,

Deutsche Presse-Agentur (dpa) reported. "Think again before it is too late," the international community's high representative in Bosnia said.

Officials in the Srpska Republic have long rejected a plan to end the ethnic split in Bosnia's police. Police reform has been specified by the European Union as one of the conditions for the start of accession talks. The Bosnian police force is currently separated between that of the Srpska Republic and the Muslim-Croat federation, the two entities set up by the international community to end a three-year war in 1995. Ashdown warned that the consequences of continuing to oppose police reform would be to see Bosnia's neighbours integrating with the EU, while it remained on the outside.

# Psychiatric patients severely mistreated, rights group says

Practices tantamount to torture are regularly practised in Turkey on people with psychiatric disorders and intellectual disabilities, according to a report released last Wednesday by the Washington-based human rights group Mental Disability Rights International (MDRI).

The report presented at a press conference in Istanbul described the conditions at Turkey's psychiatric hospitals for both adults and children as "inhumane" and "degrading" and said there was widespread use of electroconvulsive or "shock" treatment (ECT) without the use of muscle relaxants and anaesthesia in state-run institutions.

"ECT without the use of anaesthesia and muscle relaxants violates all internationally accepted medical standards," it said, noting that the treatment is used on children as young as nine years old.

"ECT is massively overused in Turkish psychiatric facilities in cases for which there is no clinically proven justification. ECT is used for the convenience of institutional authorities when more appropriate services in the community are unavailable," it said.

"The overuse of ECT exposes thousands of people to



*Shoes and red roses lie on a red carpet during a demonstration against firearms, organised by Umut (Hope) Foundation in Istanbul, Turkey, September 28, 2005. Members of the Umut foundation gathered last Wednesday to lay a pair of shoes on a red carpet, each pair symbolising a victim, protesting against the amount of firearms in the country. Turkey has an estimated eight million firearms, or one for every 12 people*

unnecessary, frightening and dangerous experiences and violates the Turkish governments own public commitments to the European Committee for the Prevention of Torture," it added.

In addition the MDRI found that staff at children's hospitals regularly left infants inadequately fed and observed

children emaciated from starvation. MDRI staff reported children dying from starvation and dehydration.

"Over the course of a number of feedings, I watched as staff came quickly into the room, dropped off bottles, and then picked up the bottles as they left the room.

"If a child could not pick up

the bottle to eat or drink, she starved," the report quoted an unnamed MDRI observer as saying.

The report also condemns the use of physical restraints used on both adults and children in psychiatric institutions, citing instances where a child's legs and arms were tied to the four corners of a crib or bed.

## IMF still concerned with Turkey's C/A deficit

The International Monetary Fund (IMF) report, entitled World Economic Outlook, released ahead of the annual meetings of the IMF and the World Bank in Washington, DC, stressed that the Turkish government's inflation goal of 8 percent in 2005 is about to be reached, Anadolu news agency reported recently. "However, current account deficit continues to be a matter of concern," the IMF report said. The Turkish government must close the wide deficit in foreign trade and implement policies to foster confidence in the market.

The IMF affirmed that the primary surplus should not exceed 6.5 percent of GNP (gross national product). Turkey's C/A deficit is estimated to exceed 20 billion Euro, against a 15 billion Euro target at the end of this year. The IMF also said economic activity was slowing to a sustainable pace with

growth targeted at 5 percent in 2005 after 8.9 percent achieved in 2004. In the meantime, the IMF team involved in the second review of the Turkish economy under the 10 billion Euro three-year stand-by deal left Ankara. Hugh Bredenkamp, the IMF senior resident representative in Turkey, said the IMF mission headed by Lorenzo Giorgianni left Turkey as planned and the team has made progress on a range of key policy issues including the macroeconomic framework for 2006; plans for implementation of the pending pension reform; measures to strengthen collection of social security contributions; steps to improve tax administration; options for reform of the tax regime; the preparations for launching formal inflation targeting in January 2006; and plans for strengthening the institutional framework for bank supervision.

The discussions will continue during the upcoming annual meetings of the IMF and World Bank in Washington, DC. The authorities will continue their work in some of these areas, including the 2006 budget, and policy decisions will be needed before the conclusion of the programme discussions.

Turkish Economy Minister Ali Babacan and a number of high ranking economy officials would also attend the IMF-World Bank annual meetings to discuss the Turkish economy with the IMF and US officials. Prior to his departure to Washington, Babacan said the IMF's first and second review could be concluded separately but he considers that the prospects would be higher if both reviews are combined, Anadolu news agency reported. By merging the two reviews, Turkey could catch up on lost time and win swifter disburse-

ment of two planned loan tranches, each worth about 800 million Euro, he added.

The first review of the Turkish economy under the 10 billion Euro three-year standby deal were full of loopholes as Turkey had failed to legislate social security reform and a banking law before parliament went into recess in July.

This blocked the first 800 million Euro tranche of the loan. Babacan said the social security reform and the banking law are expected to be among the top items on parliament's agenda when it returns from summer recess at the beginning of October, clearing the way for approval of the first review by the IMF board. Babacan said that in the second review, the IMF discussed issues such as review of the 2005 budget and the 2006 draft, financial control of the public sector and the taxation system.

## Dogan wins Turkish Star TV

Turkey's Dogan Media Group on September 26 won a public auction for Star TV, one of Turkey's most popular channels, with a bid of USD 306.5 million. Star TV was owned by the Uzan group but was taken over by the Turkish Savings and Deposit Fund (TMSF) after Uzan's bank Imar went bankrupt. Dogan Media Group is one of the largest media companies in Turkey and already owns several popular newspapers and television stations. Recently, the TMSF sold off two radio stations formerly owned by the Uzan group and is expected to sell off other media properties in the near future.

## TOBB chief on company growth

Turkish Union of Chambers and Commodities Exchanges (TOBB) Chairman Rifat Hisarcikliglu said Turkish firms are lacking in acquisition growth and partnership initiatives for creating globally competitive firms and that the consortium TOBB established for the acquisition of state-owned steelworks giant Erdemir, comprising various local companies, will set an example for future partnerships, Anadolu news agency reported. Hisarcikliglu said, "The aim of this campaign is not, by any means, to keep Turkey's assets solely in domestic hands nor to initiate a campaign that calls for lower prices for domestic firms in the sale of state assets," adding, "Indeed, the question is who should own these assets and for what reasons; as well as the role of domestic versus international capital as part of Turkey's significant privatisation push, of late." The Eregli joint venture, comprising many local companies, was formed under the leadership of TOBB and is acting as a strong local representative among global companies ready to bid for the steel giant. The Eregli consortium will have no cash problems, either in the bidding process or after purchase as the group will look to make further investments.

## Syria, Turkey target better ties

Turkish Deputy Foreign Trade Minister Tonger Kayalar and Syrian Minister of Economy and Trade Amer Hosni Lutfi met in Ankara week before last to discuss the implementation of the free trade accord between Syria and Turkey. The pact would contribute to encouraging investments between them, Anadolu news agency reported. Both officials touched upon trade and economic ties between the two countries and means of boosting them as well as building a free trade zone. According to Lutfi, Syria would sign an agreement with Turkey next November to open trade centres that increase trade exchanges between the two neighbouring countries. He noted that bilateral ties are built on the basis of mutual respect and good neighbourhood ties in addition to common concern.

## Economic policies promote imports

During a visit to Kahramanmaraş, Turkish Exporters' Assembly (TIM) Chairman Oguz Satici said that economic policies implemented in Turkey are encouraging imports, Anadolu news agency reported. According to Satici, it's not easy to be a producer or an exporter in Turkey so he suggested that instead of making or distributing Turkish products, it will be better to be a finance person, a banker or an importer. Satici pointed out that the increase in imports has created a 50 billion Euro trade deficit. "Closing this deficit is not an easy task. Turkey may try to borrow or transfer profits it has made in other areas to the production sectors." Turkey's exports are doing well but the conditions of exporters are not the same. He said, "In order to meet the gap to export their goods, exporters are reaching deep into their own pockets, but this strategy has its limits. Even if firms transfer all their assets to exporting, it is doomed to be limited given current business environment and policy influences."

## Consortium eyes radio station

A Canadian-Turkish consortium offered the highest bid 22.8 million Euro in an auction on September 22 to buy second Turkish radio station Super FM radio station, one of several companies that were taken over by the government last year to recoup debts owed by Turkey's troubled Uzan conglomerate, Anadolu news agency reported. The Canadian-Turkish consortium, a joint venture between CanWest Media of Canada and Turkey's Turkcom Iletisim and Global companies, planned to participate in other upcoming auctions as well. CanWest intends to buy up to 75 percent interest in the stations if Turkey relaxes foreign ownership rules. Super FM, a part of the Star Media Group is comprised of seven radio and two television stations and a newspaper. The CGS consortium, a joint venture between Global-CanWest media (25 percent) and Turkey's Turkcom Iletisim (75 percent) beat two other companies in an auction that was televised live.

US Trade and Development Agency (USTDA) has awarded a 245,780 Euro grant to Bilgin Elektrik, a private Turkish energy firm, it was reported recently. The funds will be used to fund a feasibility study on a wind power project at Soma in southwestern Turkey. The grant was conferred at a signing ceremony at the US embassy in Ankara. USTDA Europe and Eurasia business development manager Jennifer Snyder and Bilgin Elektrik project development leader Tolga Bilgin signed the grant agreement on behalf of the US government and Bilgin Elektrik, respectively, Anatolia news agency reported. The grant will help to promote renewable energy sources in Turkey in order to meet the country's future demand for electricity.

## ARMENIA

## Interenergo to control Armenian electricity distribution grid

Russia's state-run power monopoly, Unified Energy Systems (UES), has gained the right to formally purchase Armenia's electricity grid, giving Russia total control over the Armenian energy sector, it was reported recently. For the past few years, Armenia's leading Western donors were against Russian attempts to take over the Electricity Networks of Armenia (ENA) but now appear to have come to terms with the change of ownership.

The Armenian government finally decided to transfer the entire stock of the republican electricity distribution grid to Interenergo – a component of the UES, Armenian energy minister Armen Movsesian told Interfax on September 23 in Yerevan. He said the UES of Russia would assume all the commitments of the current owner of the republican electricity distribution grid, the British-based Midland Resources. The British company recently suggested the stock transfer. Movsesian denied claims that the UES of Russia would allegedly become the monopoly on the Armenian energy market. He said the Russian company produces only 10 per cent of the republican electricity. On June 23, Interenergo acquired the right to 99-year control over the Armenian electricity network with 73 million Euro. Initially, UES claimed to purchase the Armenian utility, but later clarified that it paid the lump sum only for the right to run ENA and use its profits. UES alone controls several big power plants that account for 80 percent of Armenia's electricity output. Movsesian publicly spoke out against the Russian giant's ownership of ENA last March, arguing that it would run counter to a key goal of the energy sector reform: separation of units generating, transmitting, and distributing electricity. Meanwhile, the World Bank believes that it is not important as to who is the owner of the power distribution network as they have great confidence in the regulator here in Armenia.

## UZBEKISTAN

## Tashkent to end product-sharing deal with Uzbek

Uzbekistan is pressing for the termination of a product-sharing agreement with British UzPEC Ltd and intends to do it through "civilised" methods, Ravshan Mamadaliyev, head of the information-analytical department on the fuel and energy complex in the Uzbek government told Interfax on September 22. The Uzbek side spelled out its position at a meeting with the management of Trinity Energy Group (one of UzPEC shareholders) in London recently, he said.

"The Uzbek side has considered all economic aspects and holds that the best way to implement the project (prospecting for and development of oil and gas on licences in Central Usturt and Southwestern Gissar) is to set up a joint venture," Mamadaliyev said. UzPEC virtually doesn't exist as a company, he said.

The Uzbek side has no idea about who stands behind UzPEC new shareholders and what their investment opportunities are, Mamadaliyev said. "How can one work without knowing how much capital has been invested (UzPEC's authorises stock)?" he wondered.

"This should be resolved in court. We will either part or set up a joint venture," he said, adding that it was unclear how long it could take to settle the conflict.

Last February Uzbekneftegaz decided to terminate a product-sharing agreement with UzPEC and revoke its licence for the development of oil deposits in Central Usturt and Southwestern Gissar. The decision was prompted by the British company's non-compliance with investment obligations stipulated in the agreement.

UzPEC, for its part rejected these accusations as groundless and refused to return the licence. Both sides first intended to take the matter to an international court but, in June 2005, gave up their litigation plans and sat down to negotiate. The British company opposes the termination of the product-sharing deal and the creation of a joint venture.

UzPEC Ltd was set up by Trinity Energy Group to run oil and gas projects in Uzbekistan. SoyuzNefteGaz President Yury Shafrannik became chairman of UzPEC's board of directors.

## GEORGIA

## Poti Shipyard signs deal with Dutch company

Poti Shipyard signed an agreement worth USD 18 million with the Dutch company Damen Shipyards Bergum on September 22. According to the agreement, Georgian shipyard will construct 12 cargo ships for the Dutch shipbuilder which will then distribute the ships in Europe.

The ships like the ones Poti Shipyard will construct carry dry cargo and typically are used in Europe, between Scandinavia, Great Britain, Holland, and Germany. Each ship can transport 200 tonnes of cargo.

Georgian Prime Minister Zurab Noghaidei and speaker of parliament Nino Burjanadze attended signing ceremony at the Tbilisi Marriott Hotel. Both evaluated the deal as a new example of cooperation between a local enterprise and a foreign company. Noghaidei believes that the contract is the outcome of economic reforms which will provide 1,000 jobs to people in Poti.

Burjanadze stressed that the project was possible because of the government's support. Georgian officials label the contract as a revival for Georgian enterprise. According to the Poti Shipyard, the contract is "the most serious and important offer that any Georgian enterprise has ever received from a foreign country."



*Ships at Batumi port, Georgia*

The shipyard's leadership underlined that the deal will improve the Georgian investment climate. "We are always looking for potential yards all over the world where we can build vessels," Manager of the Hull contracting department for Damen Shipyards Bergum Walter van Gruythuisen told The Messenger. He added that his company plans to invest "knowledge and experience" in the Georgian shipyard. Damen Shipyards Bergum builds seven to eight cargo ships per year. It has production facilities in

China, Romania, and Ukraine.

Meanwhile, Poti Shipyard Director General Dimitrios Eleftheriou told The Messenger that the Dutch company is interested in long-term cooperation. He thinks that the contract will be "an important stimulus for development of Georgian heavy industry." He noted that for the first time in Georgian history, the local enterprise will build a commercial cargo ship.

A company official claims that Poti Shipyard has also become certified in international standards in the coming days.

This will allow them to construct high-speed passenger ships for European markets. Poti's maritime infrastructure has benefited from several partnerships with Dutch counterparts over the last year. In October 2004 a delegation from the Dutch ports of Zeeland, hosted by First Lady Sandra Roelofs, signed a cooperation agreement with Poti Port. In early 2005, the Dutch development finance company granted Euro 15.3 million to the port, 5.4 million of which is to be used to rehabilitate the port's breakwater.

## Kars-Akhalkalaki railway to begin in 2006

The Georgian, Turkish and Azeri governments have finally decided the construction of a Kars-Akhalkalaki railway, it was reported last week. Turkey will provide the bulk of financial aid while Georgia will manage to attain USD 252.7 million in grants from international foundations and Azerbaijan will also contribute. This was announced at a meeting in Turkey where Turkish Minister of Transport Binal Ildirim,

Azeri Minister of Transport Zia Mamedov and Georgian Minister of Economic Development Irakli Chogovadze were present, The Messenger reported.

The construction of the railway will begin in 2006 and it is planned to be finished by 2008, by which time the Russian military bases in Georgia will be completely withdrawn. The railway will reduce transportation expenses to a

great extent and serve to further insure the Silk-Road project will become more popular.

The European Union is also interested in the construction of the Kars-Akhalkalaki railway. The project of lining Baku – Tbilisi – Akhalkalaki – Kars railroad will enable the Caspian Sea countries to transport cargoes and passengers from Baku to Europe through the territory of Turkey, the UN Deputy Secretary General

Anvarul Choudhur stated. It was recalled that on December 28, 2004 representatives of Turkey, Georgia and Azerbaijan signed an agreement about Kars-Akhalkalaki railway construction.

The Kars -Akhalkalaki railway will serve to link the Turkish rail system with the Georgian, Azeri and Russian railway systems, in order to forge further links with Central Asia.

## AZERBAIJAN

## German firms seek Azeri partners

A forum of businessmen of Azerbaijan and Baden Wurttemberg province of Germany started in Baku on September 26, Azertaj reported. According to Karsten Wifhausen, head of the economics department of the German embassy in Baku, the aim of the forum is to strengthen economic cooperation between businessmen.

Deputy Minister for Economic Development Mikayil Jabbarov said Azerbaijan is one of the leading countries for economic growth rate. Horst Mehrlender, deputy minister for economics of Baden-Wurttemberg province, said the German delegation

includes representatives of 14 enterprises operating in the fields of aluminium covers, chemical mechanical engineering, construction materials, devices and medical equipment.

## US offers radar station help

The United States will help Azerbaijan in building radar stations on its border with Iran and near Russia, a US embassy official said on September 23. The Pentagon has promised to help Azerbaijan's navy protect offshore oil deposits and to combat terrorism. Azerbaijan and Iran are disputing ownership over the southwest corner of the Caspian Sea.

## KAZAKHSTAN

## Ore giant reduces exports

SSGPO sales to Russia plummet 33.6% to 2.92 mln tn

**S**okolov-Sarbai Mining Production Association (SSGPO), Kazakhstan's biggest iron ore producer, reduced pellet exports 21 percent and concentrate exports 4.7 percent year-on-year in January-August, it was reported last week.

Rudprom, the Russian agency which collates statistics about FSU ore producers, told Interfax that SSGPO boosted pellet exports to China 72.9 percent to 1.022 million tonnes, while exports to Russia plummeted 33.6 percent to 2.92 million tonnes. Concentrate exports to Russia fell 15.1 percent to 1.99 million tonnes.

Exports to Russia fell 74.4 percent year-on-year in August to 141,000 tonnes of pellets and 8 percent to 322,000 tonnes of concentrate.

Exports are thought to have fallen due to a conflict between SSGPO and Magnitogorsk Iron & Steel Works (MMK), the



Sokolov-Sarbai Mining Production Association iron plant

mining company's biggest consumer, located just over the border in Russia.

SSGPO and MMK have been unable to agree prices, and SSGPO stopped shipping commercial ore to MMK in May

this year.

MMK arranged alternative ore supplies from Ukraine and Russia, while SSGPO has tried to redirect sales to China.

MMK and SSGPO then agreed on a partial resumption

of supplies, and SSGPO shipped 200,000 tonnes of ore to MMK in August, but this is still a far cry from the 750,000 tonnes a month that MMK bought on average from SSGPO in 2004.

## Pro-presidential bloc sees no rivals for Nazarbayev

The Popular Coalition of Kazakhstan, an election bloc set up to support presidential candidate Nursultan Nazarbayev in the poll to be held on December 4, does not see a single credible rival for the incumbent, it was reported last week.

"You ask us who can offer real competition to our candidate. We can't see such an opponent" among the people who have submitted documents

as presidential candidates, Romin Madinov, the leader of the Agrarian party of Kazakhstan incorporated in the Popular Coalition, said at a press conference in Astana last Wednesday.

The Popular Coalition also incorporates Otan (Fatherland), Asar (All Together), the Civil party, and the Democratic party. "It is absolutely clear to everybody, including the oppo-

sition, who is going to win. The main intrigue will probably be about who comes in second and third. It would be interesting for us all to watch that competition," Madinov said.

Asar party leader Dariga Nazarbayeva added at the same press conference that "sociological polls conducted by different agencies show that our candidate has an advantage over all others. It is even difficult to say

who can be a credible opponent." At the same time, Nazarbayeva said a second round might be needed in the elections. "I would say that anything might happen.

Elections are unpredictable. I know from the experience of the parliamentary election campaign that the situation can change every day and sometimes even several times a day," Nazarbayeva said.

## Kazakhstan, Israel to cooperate in space

Kazakh national company Kazcosmos will cooperate with leading Israeli companies in space exploration, it was reported last week. The CEO of Kazcosmos, Serik Turzhanov, and rocket technology specialists

Academician Meirbek Moldabekov and Professor Marat Shimarbaev visited Israel last week, the Kazakh Foreign Ministry press service said.

A statement read that the aim of the visit was "to establish

direct contacts with the leading Israeli space exploration companies and companies producing the most up-to-date space technology." Israeli Science and Technologies Minister David Lefler and Israeli Space Agency

Director Zvi Kaplan who met the Kazakh delegation said that "the visit will mark the start of aerospace cooperation between Kazakhstan and Israel, as well as joint space exploration," the statement read.

**K**azMunaiGaz Kazakhstan state-owned oil company has appointed ABN Amro Rothschild and Credit Suisse First Boston to advise on floating its E&P KazMunaiGaz subsidiary on the main market of the London Stock Exchange (LSE), it was reported last week. The appointment of ABN Amro Rothschild to such a major flotation is a coup for the Dutch bank. Next year the company is likely to float a substantial part of E&P KazMunaiGaz, in London.

## KYRGYZSTAN

## Russia's Ivanov promises Kyrgyzstan military aid

Russian Defence Minister Sergei Ivanov said in Bishkek recently that Moscow would provide Kyrgyzstan with several million dollars in military aid, noting that

Russia's 2005 budget contains provisions for aid to a number of countries.

"Russia will give Kyrgyzstan several million dollars in aid, primarily for

antiterrorism purposes," he said. Ivanov did not provide an exact figure, but said that the aid will come in the form of helicopters, firearms, and trucks.

## TURKMENISTAN

## Turkmenistan offers oil and gas projects to Japanese Itochu

During a meeting on September 26 with the delegation of the Japanese firm Itochu, President Saparmurat Niyazov of Turkmenistan offered a wide range of options for mutual cooperation in the oil and gas sector. Japanese delegation was headed by Minoru Murofushi, former head of Japan-Turkmenistan Council on Economic Cooperation, a voluntary body that looks after the economic interests of Japan in Turkmenistan. Niyazov invited Itochu to participate in modernisation and renovation of Seyidi refinery, a composite project that could cost more than USD one billion. He also asked them to consider working on the hydrocarbon deposits in the Caspian sector of Turkmenistan. Japanese delegation showed serious interest in both the offers.

The visitor said that because of huge economic potential, flexible investment and tax policy and internal political stability, many Japanese companies in the public and private sector were keen to partner with Turkmenistan.

Itochu is a traditional business partner of Turkmenistan. It has participated in rebuild of Turkmenbashi refinery, the most-modern refining facility in the entire CIS region. It is part of the consortium that provided, and is upgrading, the polypropylene plant in the Turkmenbashi refinery.

Itochu also supplied the desalination plant in the same refinery. In the CIS region, Itochu maintains offices in Azerbaijan, Kazakhstan, Russia, Turkmenistan, Ukraine and Uzbekistan.



Turkmen President Saparmurat Niyazov

## Niyazov raps provincial governors for low pace of cotton harvest

Turkmen President Saparmurat Niyazov, at a meeting of the cabinet of ministers of Turkmenistan on September 23, sharply criticised governors of most provinces for paying insufficient attention to cotton harvest, Turkmenistan.ru reported. The president made a detailed analysis of the cotton harvest campaign. He noted that interim figures of this year's harvest were lower than in the last year despite efforts by the governmental structures to provide farmers with equipment and ensure timely payments for cotton delivered to the state procurement agencies.

## TAJIKISTAN

## RusAl starts Rogun hydro project in Tajikistan

Russia's biggest aluminium company Russian Aluminium (RusAl) started completing the Rogun hydroelectric dam in Tajikistan the Tajik president's press office told Interfax last week. RusAl representative Leosh Tomichev told a press conference that this will be Central Asia's second biggest hydroplant after the Nurek dam.

The dam will be 330 metres high.

Construction began in March 1981 and was suspended in 1993 because of a lack of funds and social and political problems in Tajikistan. About USD 802 million had been invested in the project by that time and the total cost of the project was estimated at USD 2 billion. Tajikistan signed a deal with RusAl a year ago to finance the completion of the 3,600-megawatt Rogun dam.

The dam will have six 600-megawatt generators. RusAl estimates the costs at USD 1 billion. The Rogun plant, on the Vakhsh River, will generate 23.3 billion kilowatt-hours of electricity per year. Investments will take 5.5 years to recoup and the first stage, consisting of a 180-metre dam and capacity for 4.5-5 billion kWh per year. It will complete by 2010.

# Kassandra's NOTEBOOK

NE 645, October 2, 2005

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## The Stagiaires Programme

The Commission's traineeship (stage) programme is probably the biggest and longest running programme since 1960 of its kind in the world. It first started in 1960 with 3 stagiaires (2 Germans and 1 Belgian) and since that beginning 45 years ago the Commission has recruited more than 30.000 stagiaires. This year the program celebrates its 45th anniversary and the President of the Commission Mr. **Jose Manuel Barroso** will address the stagiaires in their Welcome conference. On the occasion he will cut also the birthday cake and give a memorial diploma to the 30.000th recruited stagiaire.

The programme has built through the yeas, an excellent reputation - confirmed not only by the number of applications received (more than 16.000 applications annually) but also by the quality of the applicants.

It is common nowadays to receive applications from graduates with more than one postgraduate degree or PhD, and who are able to speak more than three languages. From all these applicants, and following a rigorous and transparent pre-selection and selection procedure, 1.200 are finally recruited.

It should be pointed out that during the last four years and under the then Commissioner for Education and Culture Mrs. **Viviane Reding** and new management, a whole series of changes were introduced to the Traineeships Programme.

The program was drastically modernised, new rules and new application and selection procedures were introduced, job descriptions and tasks assignments became obligatory for all recruited trainees, a new transparent evaluation system has been established and all recruited trainees now receive a reasonable monthly grant thus making the Stages Programme one of the success stories of the Commission.

### Facts about the Stage Programme

\* For October 2005, 632 stagiaires have been recruited of which 558 (88 percent) are from the 25 EU Member States and the remaining 74 (12 percent) are from Third Countries. The trainees are from 45 different countries altogether.

\* The duration of each session is from three months (minimum) to five months (maximum). Since March 1, 2002, all recruited stagiaires receive a monthly grant (currently 900 Euro).

\* In each session, around 550 of the recruited stagiaires work in all the DGs and services of the Commission in Brussels, +50 are allocated to DGs and services in Luxembourg and 15 to the various Representation Offices in the capital cities of the EU Member States. Two are also selected by DG RELEX to work in Delegations.

## Omega, $\Omega$ for 50

Special numbers are usually given a letter of the Greek alphabet. In the way  $\pi$ ,  $\Pi$  signifies the ratio between the periphery and the diameter of the circle. The letter  $\phi$ ,  $\Phi$  is much more interesting as it defines the ratio of two consecutive numbers of the Fibonacci series. **Fibonacci** was probably the greatest mathematician of the dark ages, lived in the 13th century. His real name was **Leonardo Pisano** but he gave himself the nick name Fibonacci meaning *Fillius Bonacci* (son of Bonacci, his father name). The series of Fibonacci is a sequence of numbers where each number is the sum of previous two: 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377, 610, 987, 1597, 2584, 4181,... The ratio of successive pairs tends to the so-called **golden section** (GS) - 1.618033989... whose reciprocal is 0.618033989 so that we have  $1/GS = 1 + GS$ .

The golden section. ratio was the rule for the dimensions of Parthenon which is full of golden rectangles while followers of **Pythagoras** even thought of the golden ratio as divine.

**Leonardo da Vinci** painted **Mona Lisa**'s face to fit perfectly into a golden rectangle, and structured the rest of the painting around similar rectangles. The Fibonacci series is present in most facets of nature. From the ratios in human body to shell spirals and even to the number of petals in flowers:

3 petals: lily, iris; 5 petals: buttercup, wild rose, larkspur, columbine (aquilegia); 8 petals: delphiniums 13 petals: ragwort, corn marigold, cineraria; 21 petals: aster, black-eyed susan, chicory; 34 petals: plantain, pyrethrum; 55, 89 petals: michaelmas daisies, the asteraceae family.

But enough for Fibonacci and his numbers. The Commission has also its magic number which should be called Omega,  $\Omega$ , the last letter of the Greek alphabet signifying the end. And, as you know from the recycling process, every end reflects the beginning of a new circle of life which is always better than the previous. At least in nature where this theory is proven by the fact that with the passing of generations despite of new diseases and epidemics, *ceteris paribus*, life expectancy increases.

$\Omega=50$  and reflects Article 50 of Commission's Staff Regulation. To this effect I learn that three Directors General, Mr. **Francois Lamoureux** Transport and Energy, Mrs. **Odil Quintin** Social Affairs and Mr. **Achileas Mitsos** Research, will be shortly offered Article  $\Omega$ . At the same time DG Transport and Energy will be separated into two DGs. DG Transport and DG Energy.

In this way the road for a new French to become Director General is open and this French is likely to be the Porte-parole for the Commission Mrs. **Francoise Le Bail** thus replacing a woman for a woman and a French for two French. France, under the pressure of the British presidency and the omnipotent British presence in the Commission, is

## Something is Happening in Brussels

The European Commission announced a drastic change of its media policy this week, which could mean substantially more freedom for Europe's media, in particular for the written press.

Speaking at a conference of publishers in Berlin, Europe's Media Commissioner Viviane Reding (Luxembourg) announced that the Commission will propose no further advertising bans.

"As long as I am Commissioner, there won't be new advertising bans proposed", stressed the Commissioner. More than 600 journalists and editors could not believe what they had heard. "Self-regulation will be preferred by me over regulation, and this applies to all media, TV, the written press and the internet," the Commissioner - who herself is a former journalist - continued.

In the past, the media industry had been hit repeatedly by Brussels with restrictive advertising rules, with the ban on tobacco advertising as the most extreme example. This policy was often criticised as patronising towards the consumer and dangerous for the economic foundations of the media.

"I believe in the intelligence of consumers", Mrs. Reding instead told the Berlin conference,



Commissioner Viviane Reding

and the audience reacted promptly with standing ovations.

The Commissioner also stressed that she will take Europe's most liberal advertising rules - such as the Austrian legislation on product placement - as a model for future EU rules concerning the media.

An observer noted: "It seems that the Barroso Commission is really keeping its word. This is finally good news from Brussels after a very long time of over-regulation."

likely to lose one Director General given that 10 new Member States should be accommodated.

Yet the more important aspect of the changes are not the French that are coming and going but the two French that remain in their positions who realistically speaking are among the best assets of the Commission, in these turbulent years.

The Director General of the Legal Service Mr. **Michelle Pettite** has the most difficult task because he is the cushion of friction between President **Jose Manuel Barroso** and the governments of the Member States in very sensible issues. Recently, despite the opposition of 11 Member States and the Council, he pleaded one of the most important cases in the legal history of Europe before the European Court of Justice winning an outstanding victory for the European integration by introducing penal sanctions in Member States for Community law infringements. It was a great change, the usefulness of which we will realise in the years to come.

The Director General of Administration Mr. **Claude Chene** has a positive record in implementing reforms and raising the moral of the functionaries which was badly damaged in the years of President **Jacques Santer** and Secretary General **Carlo Trojan**. In reality Mr. Chene is becoming the standstill point of an ever turning system, in a period of endemic crisis of our institutions, proving of great support to Commissioner **Siim Kallas**.

## Correspondence

In your story "The Forest and the Woods" (Kassandra September 25), you claim that EU-Turkey negotiations either for entry or special relation will not bring democracy to Turkey and will bring more Muslims workers in Europe. This may be true but in your "forest" is missing an important "tree". The ability of Turkey to bribe officials! A couple of weeks ago, if I recall correctly, you mentioned the case of an American Congressman. Therefore, I think that to be on the safe side, the European Commission should ask all functionaries involved in discussions with Turkey to make a detailed declaration of their properties before entering and after leaving the negotiating team while certain facets of their life (i.e. vacations) should be also declared.

Edmund Richardson  
Moscow, Russia

Kassandra should be ashamed! ("Pope Prohibited Visiting the Great Church in Captivity," September 18-24). References to "oriental tricks" & comparison of Turkish actions with the behaviour of the murderous tyrant **Joseph Stalin** are blatantly racist & have no place in any newspaper with pretensions to civilised & responsible journalism.

Richard Tagart  
Antwerp, Belgium

### Editor's Note:

I would like to remind you that **Joseph Visarionovich Stalin** had recognised and respected the Moscow Orthodox Patriarch, despite the atheist nature of his communist regime. Only yesterday, a letter of the Turkish Ambassador in France Mr. **Ulutz Uzucler** appeared in *Le Figaro* stating that Turkey does not recognise the Ecumenical Patriarch of Constantinople based in Istanbul. As to the connotations of blunt racism and murderous tyranny, I think they fit better to the Armenian genocide and the persecution of 17 million Kurds. Indeed, Stalin never claimed that his regime was democratic.

## 398,534 vs 25 million

Malta has a population of 398,534 and it is an independent nation. It is a full member of the European Union and its language, a mixture of Italian, Arabic and English, is one of the official EU languages.

Kurds are the largest ethnic minority on earth without a state. They count for a total of approximately 25 million of which about 17 million live in Turkey in the Kurdish area south and east of Diarbakir, in conditions of total oppression with no rights as to their ethnic definition.

The leading political organisation reflecting the Kurdish minority in Turkey PKK, claims for independence and the creation of a Kurdish State but it is banned by the regime on the grounds that they are terrorists. Next to the Turkish borders south and east, live three million Kurds in Iran, four million to Iraq and approximately one

million in Syria. Territory wise, ethnic Kurds are all gathered in one geographical area confined to parts of these four countries.

The area is rich since the springs of the middle east rivers, Tigris and Euphrates, are located in the Kurdish mountains of Turkey while the Kurdish area in north Iraq of Mosul is full of oil. These resources are sufficient to sustain a politically and economically an independent state.

It goes without saying that under the circumstances, the first issue the EU has to put on the table as the *sine qua non* condition, if ever real accession talks begin with Turkey, is the creation of an independent Kurdish State, under EU and USA guarantees. If this does not happen, it will mean that from the very beginning of the talks, a special relation only, is negotiated.



The leader of the largest Kurdish political party PKK, Mr. **Abdulah Ocalan**, is lifetime "guest" of the Turkish regime, which the European Commission is looking forward to welcome in the club as equal-terms partners.

